"BOOK-KEEPING AND ACCOUNTANCY"

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"BOOK-KEEPING AND ACCOUNTANCY"

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FOR THE USE OF STUDENTS

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Reference Library of the Bennett College: "Book-keeping and Accountancy"

Chapter I

DEFINITIONS AND GENERAL PRINCIPLES

1.—**Definition of Book-keeping.** Book-keeping may be defined as the art of recording transactions in money or money's worth in a systematic manner, showing the nature and effect of those transactions, and enabling a true statement of the combined result of them to be prepared when required.

2.—**Principle of Double Entry.** There is only one recognised system of book-keeping or accounting in modern use, and this is appropriately called the "Double Entry" system. Other systems, which may generally be classed under the name "Single Entry," are conspicuously lacking in completeness, and not only are the results obtained by them unreliable, but often erroneous and misleading. It may also be noticed that the automatic checks which the double entry system provides against certain kinds of fraud and error in keeping accounts are lost by these anomalous "Single Entry" methods.

Double entry book-keeping recognises that every transaction has a twofold effect, viz. (1) Money or money's worth is given or transferred; (2) There is a receiver of that money or money's worth. It is obvious that unless a twofold entry is made the transaction cannot be clearly recorded, hence the main principle of double entry is that two entries must be made in respect of *every* individual transaction.

The procedure of keeping books by double entry will be more clearly understood if it be recognised at once that all transactions are classified into "Accounts," i.e. classified records of particular classes of transactions, in the principal book called the *Ledger*, and that a separate account is required for each person dealt with, and also for objects or assumed objects to which transactions relate. Thus, if a trader buys machinery from G. Lee for £75, he will record the items in a "Machinery Account" and "G. Lee's Account." It will be seen that the trader has received the value of £75, and G. Lee has parted with the value, and the two entries in the Ledger must make this clear, as they must show who received the benefit or value and who parted with it. This is achieved by dividing each account in the Ledger into two similarly ruled divisions, thus:—

FORM OF LEDGER ACCOUNT

Dr. *Cr.*

1	2	3	4	5	6	7	8	9	10	11	12	13	14

Particulars of *values received are entered on the left side,* in columns 1 to 7; *values parted with on the right,* in columns 8 to 14. The section on the left is called the "debit" side of the account, and that on the right the "credit" side, whilst entries made in each are respectively "debit entries" and "credit entries," the sections being headed Dr. and Cr., as shown. Entries are made in the columns (numbered for reference) as follows:—In 1, the month (and year); 2, the day the transaction took place; 3, particulars of the item; 4, the page number (or "folio") of the book in which the transaction was first recorded; 5, 6, 7, the amount in *£. s. d.* Similarly with the credit side of the account.

3.—**A Debtor is a person owing something, and a Creditor a person to whom something is owing,** and the amounts owing by or to each are respectively "debited" or "credited" to their separate accounts in the trader's ledger. It must never be lost sight of, however, that *every* transaction involves both a debtor and a creditor, and consequently needs both a debit *and* a credit entry in the same set of books. This does not mean that the debtor and creditor are necessarily persons; in fact debits and credits frequently affect only non-personal accounts. Thus, when G. Lee supplied the trader with machinery worth £75, the Machinery Account would be debited with £75 and G. Lee's Account would be credited with £75, thereby completing the double entry.

4.—**Kinds of Ledger Accounts.** Ledger Accounts are therefore regarded as falling into two groups or classes:—

(1) **Personal Accounts** are those relating to persons, e.g. G. Lee's account, Messrs. Harper and Bean's account, The Alpha Trading Co., Ltd., account.

(2) **Impersonal Accounts** are those relating to possessions (or assets), liabilities, gains, losses, and expenses, e.g. machinery, cash, rent, discounts, wages, etc., each of which has a separate account in the ledger. These impersonal accounts are again divided into two subdivisions:—

(*a*) **Real Accounts** which refer to transactions in material objects, e.g. machinery, cash, stock-in-trade, etc.
(*b*) **Nominal Accounts** which refer to gains, losses, and expenses, e.g. rent, discounts, wages, taxes, etc.

The transactions with G. Lee will serve as a simple example of how the Ledger Accounts record the position. We will suppose that the machine was supplied on 18th May and that it was paid for on 20th May. Three accounts are then required in the trader's Ledger, viz. a Personal Account in the name of G. Lee, and two Impersonal (or Real) Accounts named Machinery Account and Cash Account, as follows :—

(The three accounts as they appear in the trader's (not G. Lee's) Ledger.)

G. LEE'S ACCOUNT

Dr.													*Cr.*
1924 May	20	To Cash in payment of Machine (B)		£ 75	*s.* 0	*d.* 0	1924 May	18	By Machine supplied . (A)		£ 75	*s* 0	*d.* 0

MACHINERY ACCOUNT

Dr.													*Cr.*
1924 May	18	To Cost of Machine from G. Lee (A)		£ 75	*s* 0	*d.* 0							

CASH ACCOUNT

Dr.													*Cr*
							1924 May	20	By Payment to G. Lee . (B)		£ 75	*s* 0	*d* 0

The twofold aspect and "double entry" of the two transactions, which for reference are marked A and B, is readily seen. Thus the entry marked A in "G. Lee's Account," being on the

credit side, shows that he *parted* with a machine value £75, whilst the entry in the "Machinery Account," being on the debit side, records that the trader *received* the machine of that value; the entry marked B in "G. Lee's Account," being on the debit side, records that G. Lee *received* £75, and the corresponding entry on the credit side of the "Cash Account" shows that the trader parted with £75 to G. Lee.

These records show how the items appear in the trader's books, but now if the books of G. Lee were inspected, it would be seen that the entries would appear on just the opposite sides of the accounts in his Ledger. Thus the cash he received would be entered on the debit side of his Cash Account, and on the credit side of an account in the name of our trader. From this it must be observed that all transactions have to be considered from the point of view of the proprietor of the business whose books are being kept, debiting the accounts in *his* Ledger with what *his* various accounts receive, and crediting them with amounts paid away or transferred from them.

5.—**Trial Balance.** The accuracy of the Ledger entries can now be proved by totalling all the items on the debit side of all the accounts, and then all those on the credit side, when it will be found, if no mistakes have been made, that the two totals agree. This totalling of the Ledger may be done by listing the accounts and showing the *totals* of both the debit and the credit sides of each account, or by simply entering in the list the *difference* of the two sides of each account. Whichever method is adopted, the totals of the two sides should agree, and the list so compiled is called a "Trial Balance." For example, using the accounts shown above, and adding others to make a more representative Trial Balance, the two forms would appear thus:—

(1) *Using Totals*:—

TRIAL BALANCE, 31ST MAY 1924.

Accounts.	Ledger Folio.	Dr. side TOTALS.			Cr. side TOTALS.		
		£	s.	d.	£	s.	d.
G. Lee	12	75	0	0	75	0	0
Machinery	26	75	0	0	—	—	—
Cash	31	—	—	—	75	0	0
G. Morris	37	36	0	0	5	10	0
F. Smith	38	21	10	0	36	0	0
B. Brown	39	—	—	—	26	5	0
Expenses	42	10	5	0	—	—	—
		£217	15	0	£217	15	0

(2) *The same, using differences (or balances) only* :—

TRIAL BALANCE, 31st May 1924.

Accounts.	Ledger Folio	Dr. side Balances.			Cr. side Balances.		
(G. Lee's account is omitted as it balances)		£	s.	d.	£	s.	d.
Machinery	26	75	0	0	—	—	—
Cash	31	—	—		75	0	0
G. Morris	37	30	10	0	—	—	—
F. Smith	38	—	-	—	14	10	0
B. Brown	39	—	—	-	26	5	0
Expenses	42	10	5	0	—	—	—
		£115	15	0	£115	15	0

In either method the two sides agree, and the book-keeper may assume the Ledger is correctly posted. Errors which the Trial Balance does not reveal will be dealt with later.

6.—**Advantages of Double Entry.** The advantages of double entry, and the deficiencies of single entry book-keeping can now be stated :—

(1) There is a complete record of the double effect of each transaction on both Personal and Impersonal Accounts. (Single entry only deals with Personal Accounts.)

(2) Information is readily accessible to show (*a*) the amount owed by debtors or to creditors; (*b*) the value of the possessions (or assets) of the business; (*c*) particulars of gains, losses, and expenses. (Single entry shows only (*a*).)

(3) The arithmetical accuracy of the books is checked, since the total of the debits must equal the total of the credits. (Not available in single entry.)

(4) The financial position and results of the business can be easily ascertained by the preparation of a Profit and Loss Account and Balance Sheet. (This information can be obtained from single entry books only with difficulty and some uncertainty.)

7.—**The Balancing of Accounts.** The posting of items to the debit and credit of accounts has been explained. At certain times it is necessary to "balance off" the Ledger accounts.

"**Balancing**" an account means totalling the two sides of it and inserting the difference between the totals to make the two sides agree, i.e. to balance; the object being to show how the account

stands, and to use the "balance" as a clear basis for further transactions. Thus :—

Dr. M. QUEEN, OXFORD STREET, W. 1. *Cr.*

Date		Particulars	£	s.	d.	Date		Particulars	£	s.	d.
1920 May	18	To Goods supplied to him .	20	0	0	1920 June	1	By Cash . .	38	19	0
"	"	To Goods supplied to him .	15	0	0			By Discount allowed . .	2	1	0
"	25	To Goods supplied to him .	6	0	0						
			£41	0	0				£41	0	0
1920 June	1	To Goods supplied . .	£20	0	0	1920 July	31	By Cash on Account .	£50	0	0
"	7	To Goods supplied . .	35	10	0	"	"	By Balance carried down	81	16	6
"	20	To Goods supplied . .	76	6	6						
			£131	16	6				£131	16	6
1920 July	31	To Balance brought down	£81	16	16						

In the above example the account was ruled off on 1st June, when the payment made exactly balanced it; but on 31st July £50 was paid off the amount of £131, 16s. 6d. owing, leaving a balance of £81, 16s. 6d. still to be paid. This balance, inserted on the credit side to make the two sides agree in amount, is ruled off, and the £81, 16s. 6d. so inserted is then brought down, i.e. entered afresh below the ruled lines on the opposite side of the account. Thus the amount owing appears as a balance on the debit side ready for any further items which may follow.

When balances are inserted in an account prior to ruling it off, the figure so inserted must be entered again, *always on the opposite side* of the account, below the ruling-off lines, thus opening a new account for the further transactions.

Personal Accounts are in actual practice "ruled off" or "balanced" whenever a suitable opportunity presents itself, this generally being when an account is paid. This system enables any one to ascertain the balance outstanding at any time with the minimum amount of trouble, and also avoids the necessity for long additions with the consequent fear of making an error in casting.

Where there is insufficient space for inserting "ruling-off" totals, or where there are any special circumstances which may render such a procedure undesirable, the account may be left open and then balanced at stated intervals of, say, one month. *In examination work the accounts should be ruled off only after completing all the entries given in the exercise.*

Nominal Accounts are ruled off only at the end of the year or other accounting period decided upon (in examination exercises it is done at the end of the exercise).

8.—**Nominal Accounts,** which are debited with losses and credited with gains, differ from Personal Accounts in that, when balanced, the balance inserted is not brought down below the ruling-off lines in the same account, but entered instead in the account designed to receive such balances, i.e. the **Profit and Loss Account.** The result is that when all the nominal accounts have been so ruled off, and the balance of each entered in the Profit and Loss Account, this latter account has become a summary of all the gains and losses which were previously appearing in the various nominal accounts. When balances or other items are taken from one account to another in this way, they are said to be "transferred."

9.—**Books Used.** So far, transactions have been dealt with to show how they would be recorded if Ledger Accounts only were used, but to facilitate the system a number of subsidiary books are required. The complete set of books which a business ordinarily necessitates for accounting purposes, apart from various useful Statistical and Memorandum Books (such as Stock Books, Costing Record Books, etc.) are as follows:—

(1) *The Ledger*, or principal book, which contains the accounts.
(2) *The Cash Book*, in which cash and bank transactions are entered.
(3) *Subsidiary Books* (sometimes called Books of Original Entry or Prime Entry) in which all transactions, other than those shown in the Cash Book, are entered. The most usual are: Journal, Sales Book, Sales Returns Book, Purchases Book, Purchases Returns Book, Bills Receivable Book, Bills Payable Book, and Petty Cash Book which relieves the principal Cash Book of the frequently large number of small items

These books will be described in detail in the succeeding chapters, as some further important definitions and terms must necessarily be given first.

10.—**Definitions.** Accurate accounting demands a clear understanding of the significance of transactions, and of the nature of the items involved. Definitions and the limitations of terms

in general use follow, and students preparing for examinations should carefully memorise these, and be able to quote examples; they are often asked for by examiners, and marks should not be lost by giving inadequate answers to such questions. It is particularly important to understand the meaning of capital, and the difference between "fixed" and "floating" assets.

11.—**Capital.** In business, capital is the basis of all transactions, and assumes a variety of forms which have to be recognised by the book-keeper, but the following simple definition is complete and comprehensive:—

Capital of a private trader or firm is the surplus or excess of assets over liabilities.

Assume J. Bull opens a business with £2000, buying fixtures for £250, stock £500, and spending £20 on a decorated sign over the shop window. He then has £1230 in cash remaining for working expenses, etc. His financial position can now be represented in this way:—

Commencing capital	£2000	Fixtures	£250
		Shop sign	20
		Stock	500
		Cash	1230
	£2000		£2000

Before he bought what he required to open the business his capital was £2000 in cash. When he opened the business his capital was still £2000, but then it consisted of cash £1230 and various things he bought, value £770.

After trading for six months assume his financial position was as follows:—

Liabilities.		Assets.	
He owes	£300	Fixtures	£250
Surplus of Assets over Liabilities (=Capital)	2800	Shop sign	20
		Stock	780
		He is owed	950
		Cash	1100
	£3100		£3100

It will be seen that although he owes £300 to creditors he has debts due to him and other assets to the value of £3100. The surplus or excess of these assets over what he owes is £2800, and this sum is his present capital. This state of affairs is quite

possible if he made sufficient profit and let £800 of that profit remain in the business, so increasing his capital.

An excess of liabilities over assets is called a **Deficiency.**

The capital of a joint stock or limited liability company is the amount contributed by the shareholders, and except under special circumstances it is an unvarying amount. Further aspects of a limited company's capital account will be considered later.

12.—**Assets** consist of property, possessions, and valuable rights, e.g. land, buildings, machinery, goodwill, patents, goods, cash, etc. There are two classes of assets :—

Fixed Assets, those acquired and held for the purpose of earning profit or producing income, e.g. machinery, buildings, goodwill, copyrights, etc.

Floating Assets (sometimes called Circulating Assets), those acquired and held temporarily for the purpose of exchange or re-sale, usually at a profit, although sometimes a loss may ensue, e.g. stock-in-trade, debtors' accounts, etc.

The distinction between these two classes is very important in book-keeping, as will be evident when the time for compiling the Profit and Loss Account and Balance Sheet arrives.

It should be noted, however, that the same kind of asset is "fixed" or "floating" according to the nature of the business engaged in. For example, motor wagons *used* for delivering coal by a coal merchant are fixed assets in his accounts; but motor wagons in the showroom, or being built in the motor manufacturer's workshops expressly *for sale* are floating assets. Similarly, stocks and shares held by a stockbroker in the ordinary course of his business are equivalent to stock-in-trade, and are therefore "floating" assets, but shares held by a company or trader as an investment are "fixed" assets. The essential difference is that fixed assets are *held permanently for use* in the business, whilst floating assets are *held only temporarily* until they can be converted into money.

Three other terms are often used to describe assets from another viewpoint, which does not differentiate between "fixed" and "floating" assets :—

(1) **Liquid Assets.** Those assets which are available, either at once or on short notice, for making payments, e.g. cash and first-class securities.

(2) **Wasting Assets.** Those becoming less valuable by depreciation, regular exhaustion, or effluxion of time, viz. :—

(*a*) By wear and tear, e.g. motor lorries, or machinery, which decrease in value with use.

(*b*) By time, e.g. the lease of a building, of which the

value diminishes as the period for which it was granted expires.

(c) By being consumed, used up, or exhausted in the course of trade, e.g. quarries, mines, clay-pits.

(3) **Fictitious Assets.** Those of an unrealisable or intangible nature, e.g. the preliminary expenses incurred in the formation of a joint stock company, and which are shown as an asset in the balance sheet until written off; or a trading loss appearing on a company's balance sheet; or insurance premiums paid in advance.

13.—It is now possible to define some of the terms which are used to distinguish the various forms the capital of a business may assume.

Trading Capital comprises all the fixed and floating (or circulating) assets, i.e. every possession used in the business.

Working Capital is that portion of the capital which remains available for carrying on the business after the acquisition of the requisite fixed assets. It is the excess of the floating assets over floating liabilities, and consists chiefly of stock on hand, debtors' accounts, and money. Thus, in the case of J. Bull's business (page 8), the working capital in the first instance is £2000 less £270 invested in fixed assets, viz. shop sign and fixtures, while in the second case it is the total cash, stock and debtors (£2830), less creditors (£300).

Fixed Capital and **Floating (or Circulating) Capital** are terms sometimes used for the portions of the trading capital represented respectively by fixed and floating assets. Thus in the previous paragraph £270 is Fixed Capital, and the balance £2830 is Floating or Circulating Capital.

It now remains to explain some of the matters of everyday routine which concern the book-keeper.

14.—**The Bank.** In most businesses it is customary to lodge all cash in a Bank, except such an amount as may be required for daily use, and the money so placed with the Bank is said to be:—

(a) **On Current Account,** when the trader arranges to draw sums from it by means of cheques payable to himself or to any other person, as and when required, without previous notice to the Bank.

(b) **On Deposit Account,** when the trader arranges to withdraw the money only after giving a specified period of notice to the banker (usually seven days). In this case, the Bank generally allows interest at $1\frac{1}{2}$ to 2 per cent. below the official "bank rate" fixed by the Bank of

England. *It is not usual to allow interest on current* accounts, except in the provinces under special arrangements.

Thus money may be received or paid either by cheque or cash. A cheque is simply a written order to the banker to pay a specified sum on demand to the person named in the cheque or to order, which means to any one else to whom that person requests it to be paid. A cheque may also be made payable to bearer, in which case any person in possession of it may obtain payment on demand. Every cheque is of course signed by the trader or any one whom he has authorised to sign on his behalf. Such an authorisation must be notified to the Bank.

15.—**Cash, Credit and Discounts.** Sales or purchases are effected for immediate payment or for payment at a later date; such transactions are said to be respectively "For Cash" or "On Credit." As an inducement for immediate payment, or for a payment within a specified period, an allowance is often made in the form of a percentage of the amount payable. This allowance is called a **Cash Discount,** or in some businesses "Counting House" Discount.

Cash discount must be carefully distinguished from **Trade Discount,** which is actually a reduction in selling price of the goods, usually as an adjustment of a standard catalogue price. This is especially so where prices are subject to fluctuations, for it enables priced catalogues to be issued, the prices being adjusted by varying the trade discount allowance. By this means, frequent re-issues of new price lists are avoided. The discount sometimes allowed to retailers by wholesale dealers or manufacturers from a standard sale price is a common example. Another form trade discount takes is the "Wholesale" discount which a manufacturer usually allows to wholesalers who buy in bulk for re-sale to retailers. It is possible that both cash and trade discounts may be allowed in the same transactions—in fact, this frequently happens—but it should be noted that trade discount is deducted from the amount of the invoice *before* it is entered in the books, which thus only records the net value of the invoice. Cash discount, on the other hand, has to be recorded in the Cash Book when the account is paid, and subsequently also appears in the ledger account along with the amount of cash paid

16.—**Bills of Exchange.** Instead of paying by cash or by cheque immediately payable, there may be arrangements for payment to be made by means of **Bills of Exchange,** often referred to simply as Bills. A Bill of Exchange is legally defined in the Bills of Exchange Act as "an unconditional order in writing, addressed by one person to another, signed by the

person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to, or to the order of, a specified person, or to bearer." In effect the wording of a bill is almost like a short letter sent by a person to one of his debtors in the following terms:—

18th May 1924.

(DEAR SIR),
Three months after this date please pay to me or my order Sixty pounds for which you have already received value.—(Yours faithfully),
J. BULL.

To Mr. A. DEBTOR,
Bridge Street,
London.

If Mr. Debtor agrees to this he might write across the letter "I agree," or "I accept the proposal," sign his name, and return the letter to Mr. Bull. Providing the letter had been stamped with the correct impressed duty stamp, in this case ninepence, the above would be a valid bill of exchange, and on taking this to Mr. Debtor or presenting it through his bank in three months' time, Mr. J. Bull would collect the sixty pounds. The actual form of a bill closely resembles such a letter, but for present purposes it will suffice to say that here J. Bull is the "drawer" and Mr. Debtor is the "drawee." When Mr. Debtor signs his acceptance across the face of the bill he becomes the "acceptor."

The person to whom the bill is payable is the "payee." In this case it is the same person as the drawer, viz. J. Bull, but quite legitimately J. Bull might have specified any other person instead of himself as "payee," as in the following example:—

1/-

(Impressed stamp)

LONDON,
18th May 1924.

Due 21*st July* 1924, £92, 1s. 6d.

Two Months AFTER DATE PAY TO *Mr. T. Smith*, OR ORDER, THE SUM OF *Ninety-two pounds one shilling and sixpence* VALUE RECEIVED.

J. BULL.

To *Mr. A. Debtor*,
Bridge Street,
London.

If he agrees to the terms of the bill as drawn, Mr. A. Debtor would write across the bill, as below. In Great Britain this is usually written across the face of the bill, but abroad it is written on the back of it; in either case the effect is the same.

Accepted payable at
the United Bank Ltd.,
City Street Branch.
A. DEBTOR.

Mr. Debtor would then return the bill to Mr. J. Bull. This is then a Bill Receivable so far as J. Bull is concerned, but to A. Debtor it is a Bill Payable.

A **Bill Payable** is one which the person whose books are being kept has to pay. A bill which will, in due course, be paid in cash to the person whose books are being kept, is a **Bill Receivable.** Thus a Bill Receivable in a trader's books is a Bill Payable in the books of the customer upon whom it was drawn. The period for which a bill is drawn (in the example, two months) is called its "Tenor," and the payment of the bill is due three days after the expiration of the time specified. These three "**Days of Grace**" are allowed by law in England, and a bill is only due and payable on the last day of grace, unless the bill is specially drawn as "Without days of grace," or is drawn as payable on demand, at sight, or on presentation, or on a certain date "fixed."

No bill is legally payable on a Sunday or Bank Holiday, and where the last day of grace does fall on such a day the following rules apply:—

(*a*) Where the last day is a Sunday, Christmas Day, Good Friday, or other public fast or thanksgiving day, the bill is payable on the *preceding* business day;

(*b*) Where the last day is a Bank Holiday, other than those above, on the *succeeding* business day;

(*c*) Where the last day is a Sunday and the preceding day a Bank Holiday, on the *succeeding* business day.

A bill is not invalidated by reason only of the fact that it is dated on a Sunday, or ante-dated, or post-dated, or even if

the date is omitted altogether. In the last-mentioned case a holder may legally insert what he considers to be the proper date.

Further aspects of Bills of Exchange will be dealt with in a later chapter.

We can now proceed to describe the necessary books and how transactions can be recorded in them according to recognised double entry principles and actual modern practice.

Chapter II

THE LEDGER

17.—**Definition and Description of Ledger.** The principal book used for accounting purposes is the Ledger, into which records of all transactions are collected in various "accounts." The form of these accounts has been explained in the first chapter.

The Ledger may be defined then as the book in which transactions are recorded in a summarised form easily accessible for future reference, the items being classified into appropriate accounts.

The kinds of Ledger Accounts already defined, it will be remembered, are :—

(1) Personal Accounts.
(2) Impersonal Accounts of two categories:
    (a) Real Accounts (or Property Accounts).
    (b) Nominal Accounts.

In dealing with transactions it is useful to regard each account as if it were an actual person, even though it may only refer to property or something impersonal. The difficulty of knowing what to credit or debit can be minimised in this way. Thus in the case of Personal Accounts there is no hesitation in deciding whether to place an item to the debit or credit of the account concerned, for what that person receives is debited, and what he gives out is credited ; similarly in Real Accounts the value of acquisitions must be debited, and of anything parted with, e.g. sold or destroyed, is credited.

It is in dealing with Nominal Accounts, however, that students sometimes experience a little difficulty, but this may be obviated by thinking of such accounts as "*My* Purchases Account," "*My* Expenses Account," etc. From this point of view, purchases being something received are debited to the Purchases Account; the value of money spent on expenses is theoretically "received" by "my" expenses account, and is therefore debited to it, the corresponding credits appearing in the Cash Account.

These ideas are crystallised in the following inviolable rules :—

When dealing with—	DEBIT.	CREDIT.
Cash Account.	Receipts.	Payments.
Real Accounts.	Value coming in.	Value going out.
Personal Accounts.	The "Receiver"	The "Giver."
Nominal Accounts.	Losses and Expenses	Profits and Gains.

18.—**Division of Ledger.** Although all accounts if not too numerous may be kept in one Ledger, it is usual in practice to subdivide the Ledger into several separate volumes. This saves having one unwieldy book, and enables the different sections to be entered up more conveniently, and, if necessary, by different clerks. The separate books into which the Ledger is usually divided are :—

(1) **The Sales Ledger,** in which all customers' personal accounts are kept. In large businesses this may be again divided into sections, such as "A to K" and "L to Z"; or "Town" and "Country"; or "Home" and "Export," as convenience may dictate.

(2) **Bought Ledger,** in which accounts are kept of transactions with persons from whom purchases on credit have been made.

(3) **Impersonal** or **Nominal Ledger** for the accounts relating to assets, expenses, etc., i.e. for Real and Nominal Accounts, except those kept in the Private Ledger.

(4) **Private Ledger** for accounts which it is desired to keep more private than is possible in the other Ledgers, e.g. Capital, Proprietors' Drawings, Profit and Loss, and any other accounts which may be considered of a private nature. The Private Ledger is frequently provided with a lock and key.

(5) **The Cash Book,** which is really a Ledger containing only the Bank and Cash Accounts, is bound separately because of the numerous entries to be made in them, and the constant need for their use by the cashier and other clerks. Although it is not called a Ledger, nor usually recognised as one, the fact that *it is an essential part of the Ledger* must not be forgotten.

When the Ledger is kept in separate books in this way the balance of debits and credits is not disturbed, for all the separate books combined still constitute one Ledger. The principle that every transaction must have a debit and credit entry does not necessarily mean in the same *book*, but in the same *set* of books used in the business concerned. In double entry all the books used in operating the system are looked upon as a complete whole, just as if all were bound together in one great volume.

19.—**Loose-Leaf and Card Ledgers.** The most common way of keeping accounts is in ordinary bound books, but during the last decade there has been a greatly increased use of loose-leaf books and record-card systems. The Ledgers described in the preceding paragraphs are frequently kept in the loose-leaf or card form, but the double entry system of book-keeping is not altered in

any way thereby, although there are special features which must be noticed.

Loose-Leaf Ledgers differ from ordinary bound Ledgers in that the leaves are loose sheets which are slotted in various ways to enable them to be bound in thick covers, called binders, so making them into a book. The leaves can be inserted or removed from the binders or covers when required, and are held in position by a series of leather thongs or metal rods, so arranged that the thickness of the book may be increased or reduced as the number of leaves necessitates. A lock to the mechanism is provided, and the key is, or should be, only accessible to a responsible person in charge of the Ledger.

Card Ledgers are not in book form, and instead of leaves, cards are used, these being kept in drawers or trays, generally in a table-cabinet form. The cards are ruled in exactly the same manner as an ordinary Ledger, although much smaller in size.

Special Features of Loose-Leaf and Card Ledgers.

(*a*) *Advantages:—*

(1) The Ledger is freed from dead matter, such as closed accounts and filled sheets, as these may be removed and filed in a separate binder; whilst there is no necessity for blank pages, which can be inserted as and when required. In the case of cards, those which do not contain live matter can be filed in a separate drawer.

(2) The accounts may be arranged alphabetically, or in any other order desired, and cards or leaves for new accounts can be inserted where required so as to keep that order strictly observed. Whilst this dispenses with the ordinary index, it is necessary in practice to have an index sheet or card for each alphabetical section, as a folio number is necessary for entry against items in the subsidiary books. But for the need of this it would be possible to dispense with the index altogether.

(3) The not inconsiderable labour of periodically opening new ledgers is dispensed with.

(4) A folio number once allotted to an account can always be retained for that account. This appreciably facilitates rapid posting.

(5) Each account is continuous, not being carried forward or backward as is so often necessary in a bound book; new leaves or cards are added or substituted as required.

(6) If desired several clerks can use one Ledger simultaneously by dividing the Ledger between them, so that any specific work can be performed quickly, e.g. posting, rendering statements, extracting balances, etc.

(*b*) *Disadvantages* :—

(1) Cards or leaves may be lost or destroyed, either wilfully or accidentally.

(2) New sheets or cards may be substituted for some already in use, with fraudulent intent.

(3) Card Ledgers have these dangers more pronounced than loose-leaf ones, and although cards are perhaps more conveniently written on, they are more bulky than paper, and this form of Ledger does not therefore find much favour. **Card indexes** for Ledgers have, however, many advantages, and have become popular in many businesses. The strict alphabetical arrangement of names can be maintained, and rewriting is avoided.

SUBSIDIARY BOOKS

20.—**Need for Subsidiary Books.** Double entry bookkeeping is possible by using only the Ledger, without the intermediary of any subsidiary books, transactions being entered direct to the debit or credit of the various accounts concerned. The results so obtained would be the same as if subsidiary books had been utilised, but to record so great an amount of detail in a Ledger is not only undesirable, but impracticable in most businesses, while it would be much more difficult to trace any errors that may have been made.

21.—**The Journal.** The original means of relieving the Ledger of much detail was the introduction of the Journal, a book which is now used in a modified manner, and frequently in a changed form. The Journal was written up daily from a rough memorandum book, known as the Waste Book, which was often of foolscap size, or even a notebook, kept handy on the desk or counter, and transactions were entered roughly as they occurred. This old style Journal therefore represented a fair copy of the Waste Book entries, except that the debit and credit aspects of transactions were shown in a form convenient for posting to the Ledger. By "**posting**" is meant the entering of an item in the Ledger, and when an item is entered in the Ledger from a subsidiary book, e.g. a Journal, it is said to be "posted."

Consider again the transaction—

G. Lee supplies machinery value £75 on credit to J. Bull, our trader. The necessary entries could be made in this way :—

JOURNAL

		£	s.	d.
Machinery Account	*Debit*	75	0	0
G. Lee's Account	*Credit*	75	0	0

and the effect of the transaction is shown correctly. The inconvenience of this method, however, is soon apparent when it is desired to total separately the debits and credits; hence the common form of Journal ruling adopted is as follows:—

JOURNAL

Particulars.	Ledger Folio.	Debit.			Credit.		
		£	s.	d.	£	s.	d.
Machinery Account . . *Dr.*	26	75	0	0			
To G. Lee's Account . .	12				75	0	0
For new machine supplied.							

This double cash column ruling is generally referred to as "Journal ruling." Notice (1) the word "to," which always precedes the *credit* items in the Journal, and (2) the brief description of the transaction, which is known as a "Narration."

The treatment of the following transactions in the above form will serve as an indication of the procedure of journalising.

TRANSACTIONS

1924.			£	s.	d.
Sept.	2.	Purchased Goods on Credit from F. Brown	55	0	0
,,	2.	Bought Postage Stamps	3	0	0
,,	3.	Bought Office Stationery for Cash	5	10	0
,,	3.	Sold Goods to C. Green	10	15	0
,,	5.	Bought Goods from T. Black	150	0	0
,,	6.	Paid Wages	15	0	0
,,	9.	Banked Cash received during the week (ready money) . .	60	0	0
,,	12.	Received in Cash from C. Green	10	9	6
		and allowed him Discount	0	5	6
,,	12.	Received Cheque from D. Browne as payment in advance .	5	6	5
		and allowed him 5% Discount	0	5	7
,,	27.	Bought Goods for Stock from P. Jones, invoiced at £75 less			
		20% Trade Discount	60	0	0
,,	28.	Bought Shop Fixtures from D. Smith	45	0	0
,,	30.	Paid F. Brown by Cheque	53	12	6
		deducting $2\frac{1}{2}$% Discount	1	7	6
,,	30.	Paid P. Jones Cheque £50 and Cash £7, taking 5% prompt			
		Discount	60	0	0
,,	30.	Paid D. Smith by Cheque net	45	0	0

Bearing in mind the "golden rules" of double entry, viz:—

Debit cash received;	Credit cash paid,
Debit the receiver;	Credit the giver,
Debit losses and expenses;	Credit gains,

the above transactions would be journalised as below, "narrations" being omitted.

JOURNAL (say) page 29.

Date.		Particulars.	Folio.	Dr. £	Dr. s.	Dr. d.	Cr. £	Cr. s.	Cr. d.
1924 Sept.	2	Purchases Account (Goods) . *Dr.*	I.L. 50	55	0	0			
		To F. Brown . . .	B.L. 11				55	0	0
,,	2	Expenses Account (Postages) . *Dr.*	I.L. 14	3	0	0			
		To Cash	I.L. 30				3	0	0
,,	3	Expenses Account (Stationery) *Dr.*	I.L. 16	5	10	0			
		To Cash	I.L. 30				5	10	0
,,	3	C. Green . . . . . *Dr.*	S.L. 3	10	15	0			
		To Sales Account . . .	I.L. 61				10	15	0
,,	5	Purchases Account . . . *Dr.*	I.L. 50	150	0	0			
		To T. Black	B.L. 6				150	0	0
,,	6	Wages Account . . . *Dr.*	I.L. 19	15	0	0			
		To Cash	I.L. 30				15	0	0
,,	9	Bank . . . . . . *Dr.*	I.L. 41	60	0	0			
		To Cash	I.L. 30				60	0	0
,,	12	Cash . . . . . . *Dr.*	I.L. 30	10	9	6			
		Discount . . . . . ,,	I.L. 22		5	6			
		To C. Green	S.L. 3				10	15	0
,,	12	Cash . . . . . . *Dr.*	I.L. 30	5	6	5			
		Discount . . . . . ,,	I.L. 22		5	7			
		To D. Browne	S.L. 9				5	12	0
,,	27	Purchases Account . . . *Dr.*	I.L. 50	60	0	0			
		To P. Jones	B.L. 8				60	0	0
,,	28	Fixtures Account . . . *Dr.*	I.L. 18	45	0	0			
		To D. Smith	B.L. 12				45	0	0
,,	30	F. Brown . . . . . *Dr.*	B.L. 11	55	0	0			
		To Bank	I.L. 41				53	12	6
		,, Discount	I.L. 22				1	7	6
,,	30	P. Jones . . . . . *Dr.*	B.L. 8	60	0	0			
		To Bank	I.L. 41				50	0	0
		,, Cash	I.L. 30				7	0	0
		,, Discount	I.L. 22				3	0	0
,,	30	D. Smith . . . . . *Dr.*	B.L. 12	45	0	0			
		To Bank	I.L. 41				45	0	0
				£580	12	0	£580	12	0

22.—**Posting.** After completing the entries in the Journal, each item is posted to the appropriate account in the Ledger. Those items appearing in the debit column of the Journal are posted to the debit side of the respective Ledger Accounts, and those in the credit column are posted to the credit side of the Ledger Accounts. The page of the Journal is entered in the folio column in the Ledger, and the Ledger Account folio is inserted in the folio column in the Journal opposite each item, as indicated in the example. The letters in the folio column of the Journal—I.L., B.L., and S.L.—refer to the Impersonal, Bought, and Sales Ledgers respectively. It will be noticed that cash items almost always appear on the credit side of the Sales Ledgers; but in the Bought and Impersonal Ledgers practically all cash items appear on the debit side of the accounts.

The transactions journalised in the last example when posted in the Ledgers appear as follows, but observe that in business each account usually has a separate page in the Ledger. The Bank and Cash Accounts would be combined in the Cash Book to be described later, but are here shown as ordinary Ledger Accounts for convenience, and to exemplify the postings from the Journal:—

In Impersonal Ledger.

PURCHASES ACCOUNT

Dr.													*Cr.*
				£	s	d							
1924													
Sept.	2	To F. Brown	J. 29	55	0	0							
"	5	" T. Black	J. 29	150	0	0							
"	27	" P. Jones	J. 29	60	0	0							

SALES ACCOUNT

Dr.													*Cr.*
											£	s	d
							1924						
							Sept.	2	By C. Green	J. 29	10	15	0

EXPENSES ACCOUNT

Dr.													*Cr.*
				£	s	d.							
1924													
Sept.	2	To Cash (Postage)	J. 29	3	0	0							
"	3	To Cash (Stationery)	J. 29	5	10	0							

In Impersonal Ledger—(*contd.*).

WAGES ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Sept.	6	To Cash .	J. 29	15	0	0							

BANK ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Sept.	9	To Cash .	J. 29	60	0	0	1924 Sept.	30	By F. Brown	J. 29	53	12	6
							,,	,,	,, P. Jones	J. 29	50	0	0
							,,	,,	,, D. Smith	J. 29	45	0	0

CASH ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Sept.	12	To C. Green	J. 29	10	9	6	1924 Sept.	2	By Postage	J. 29	3	0	0
,,	,,	,, D. Browne	J. 29	5	6	5	,,	3	,, Stationery	J. 29	5	10	0
							,,	6	,, Wages	J. 29	15	0	0
							,,	9	,, Bank	J. 29	60	0	0
							,,	30	,, P. Jones	J. 29	7	0	0

DISCOUNT ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Sept.	12	To C. Green	J. 29		5	6	1924 Sept.	30	By F. Brown	J. 29	1	7	6
,,	,,	,, D. Browne	J. 29		5	7	,,	,,	,, P. Jones	J. 29	3	0	0

FIXTURES ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Sept.	28	To D. Smith	J. 29	45	0	0							

In Bought Ledger.

F. BROWN

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
1924 Sept.	30	To Bank	J. 29	53	12	6	1924 Sept.	2	By Goods	J. 29	55	0	0
"	"	" Discount	J. 29	1	7	6							
				£55	0	0					£55	0	0

T. BLACK

Dr. | *Cr.*

											£	s.	d.
							1924 Sept.	5	By Goods	J. 29	150	0	0

P. JONES

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
1924 Sept	30	To Bank	J 29	50	0	0	1924 Sept.	27	By Goods	J. 29	60	0	0
"	"	" Cash	J 29	7	0	0							
"	"	" Discount	J 29	3	0	0							
				£60	0	0					£60	0	0

D. SMITH

Dr. | *Cr.*

				£	s	d					£	s.	d.
1924 Sept.	30	To Bank	J 29	45	0	0	1924 Sept.	28	By Fixtures	J 29	45	0	0
				£45	0	0					£45	0	0

In Sales Ledger.

C. GREEN

Dr. | *Cr.*

				£	s	d					£	s.	d.
1924 Sept.	3	To Goods	J. 29	10	15	0	1924 Sept.	12	By Cash	J. 29	10	9	6
							"	"	" Discount	J 29		5	6
				£10	15	0					£10	15	0

In Sales Ledger—(*contd.*).

D. BROWNE

Dr. *Cr.*

											£	s.	d.
							1924						
							Sept.	12	By Cash .	J. 29	5	6	5
							,,	,,	,, Discount	J. 29		5	7

23.—**Journalising.** Although at one time every transaction used to be passed through the Journal to the Ledger in the way indicated above, in modern practice subsidiary books of a specialised form supersede the Journal except for certain classes of entries, such as closing entries, transfers, etc., as will be explained later. It is, however, very helpful to journalise mentally every item dealt with, as by this means the principle of every debit having a corresponding credit will be better and more clearly impressed, whilst facility for handling book-keeping problems will be gained.

It should be observed that in most parts of Europe, and wherever the *Code Napoleon* is in force, the use of the Journal is compulsory, and in many respects, especially from a legal point of view, it is more important than the Ledger.

The subsidiary books, or modified forms of the Journal, almost universally used, are described in the next chapter.

Chapter III

SUBSIDIARY BOOKS USED INSTEAD OF THE ORIGINAL JOURNAL

24.—In every business there are certain classes of transactions of a similar nature taking place frequently, such as purchases, sales, receipt and payment of monies, and the transfer of items from one account to another, and to save the considerable amount of clerical work which would be involved in journalising each item separately the subsidiary books now described are in almost general use.

THE PURCHASES BOOK

25.—This book is also called the Purchases Journal, Invoice Book, or Bought Day Book. In it are entered all purchase

PURCHASES BOOK (Simple Form) (say) page 12.

Date.		Particulars.	Ledger Folio.	Details.			Totals.		
				£	s.	d.	£	s.	d.
1925 May	18	Reeves & Co, 20 Lime St, W.C.							
		12 boxes of Laces @ 11/10½		7	2	6			
		6 doz. Atlas Fancy Covers @ 10/		3	0	0			
		1 gross Plain Covers for		2	17	6			
				13	0	0			
		Less Trade Discount 20%		2	12	0			
			27				10	8	0
"	19	Smithson Brothers, 2 Oak St, E.C.							
		2 doz. Special No. 264 @ 37/6 doz		3	15	0			
		1 doz Art Silk Squares @ 11/3 each		6	15	0			
		1 only Indian Rug		12	10	0			
		5 gross Silk Wraps for		30	19	6			
				53	19	6			
		Less Trade Discount 5%		2	14	0			
			74				51	5	6
"	31	Wilson & Jones, 12 Long Lane, York.							
		1 Specially designed Rug (net)		52	10	0			
			83				52	10	0
		(say) Total for Month	11 75				£114	3	6

transactions on credit in the order of their occurrence, day by day. The preceding is a specimen of the simplest form of ruling, and of some representative entries which are self-explanatory, except that it should be noticed the first cash column shows the values of the items of each invoice, and that the total of these, less *trade* discount (but not *cash* discount), is extended into the outer column. It is this last figure which is posted to the *credit* of the personal account affected in the Bought Ledger.

The above entries are posted to the various personal accounts in the Bought Ledger, e.g. £10, 8s. would be posted to the *credit* side of Reeves & Co.'s account, and if this account is on, say, folio 27 in the Ledger, that folio is entered in the folio column as shown above, and the page number of the Purchases Book, from which the figures are posted, is shown in the proper column in Reeves & Co.'s Ledger Account. Similarly for every other item, thus:—

(Accounts appearing in the Bought Ledger.)

REEVES & CO., 20 Lime Street, W.C.

Dr.													*Cr.*
							1925				£	*s.*	*d.*
							May	18	By Goods .	P.B. 12	10	8	0

SMITHSON BROTHERS, 2 Oak Street, E.C.

Dr.													*Cr.*
							1925				£	*s.*	*d.*
							May	19	By Goods .	P.B. 12	51	5	6

WILSON & JONES, 12 Long Lane, York

Dr.													*Cr.*
							1925				£	*s.*	*d.*
							May	31	By Goods .	P.B. 12	52	10	0

26.—**Guard Book.** An old-fashioned procedure was to paste the actual invoices in a **Guard Book**, money columns being provided into which the totals of the invoices were extended. This cumbersome method has almost disappeared in the present day.

27.—**Posting Total Purchases.** It will be noticed that so far no double entry has been effected, and that every item is merely posted to the credit side of the various personal accounts in the Bought Ledger only. Although every credit must have a corresponding debit, and *vice versa,* it is not necessary that each individual credit should have a *separate* individual debit, especially if double entry can be effected in a more convenient way. Thus the three credit items shown in the above example appear as separate credits in the Bought Ledger personal accounts, but instead of entering in the Purchases Account in the Impersonal Ledger three corresponding debits, the double entry is equally well, and more conveniently, effected by entering *the total* of these separate credits in one sum in the Purchases Account. This is done in practice by totalling the Purchases Journal at intervals (usually monthly), the total being posted to the debit of the Purchases Account in the Impersonal Ledger, which completes the double entry. The ledger folio is placed against the total in the Purchases Book. The Purchases Account in the Impersonal Ledger appears as follows:—

PURCHASES ACCOUNT

Dr. *Cr.*

1925				£	s.	d.							
May	31	To Purchases for the month	P.B. 12	114	3	6							

It is desirable to explain here that the Purchases Book total is posted to a "**Purchases Account**" in the Impersonal Ledger, and not to a "**Goods Account,**" as most text-books state. In practical accounting, the theoretical "Goods Account" of the text-books is replaced by a "Stock Account," a "Purchases Account," *and* a "Sales Account," the first containing a debit entry for commencing stock, the second debit entries of goods purchased (from the Purchase Journal), and the last containing credit entries for goods sold (from the Sales Day Book). At the end of the financial year or trading period these three ledger accounts are brought together in the Trading Account, as will be explained later. This method should therefore be followed in examination work.

28.—**The Purchases Account is only for Purchases of Goods for Re-sale.** If any items refer to goods or articles not for *re-sale*, e.g. machines, fuel, stationery, renewals, fixtures, etc.,

the amounts for each must be analysed into a summary at the end of the month before the total is posted to the Purchases Account. Such items must go into their appropriate expenses or assets account in the Impersonal Ledger, not the Purchases Account, which is reserved entirely for purchases of goods for stock-in-trade.

In many concerns, only items rightly chargeable to the Purchases Account are kept in the Purchases Book, whilst items affecting other impersonal accounts are entered in a separate book, or posted direct from the Cash Book after payment.

If this distinction were not made the Gross Profit shown by the Trading Account would appear less than it actually is, as will be seen when the Trading Account is described.

29.—**Tabular or Columnar Purchases Book.** It is often necessary to separate the purchases made to show how much has been bought for each department of a business, or of each of certain classes of goods dealt in. Such information is essential for finding which departments or which goods are producing profits (or losses), and is useful in many other ways. To facilitate the collection of these figures into appropriate totals, the Purchases Book is often ruled with suitable analysis columns; in fact, from two to fifty columns are in common use, especially in large departmental stores.

In entering up an analysed Purchases Book it will generally be more convenient to deduct trade discounts on the invoices themselves, so that only the net amount need appear in the appropriate column.

The appended example shows an analysed Purchases Book for four departments, but the ruling may be adapted for use in any business by increasing or reducing the number of columns, and, if necessary, these columns may be extended over two or more pages of the book; a specimen columnar "Purchases Account" as it would appear in the Impersonal Ledger is also shown.

It sometimes happens that entries are placed in a wrong column by mistake, when using columnar books. Errors so made are best corrected either (1) by passing a rectifying entry through the Journal, or (2) by transferring the wrongly entered amount in the book concerned, i.e. when the columns are totalled by making a deduction from one column total and adding the same sum to the proper column. The entry should be explained, e.g. Transfer (say) from "Costumes" to "Furs," item, May 20.

PURCHASES BOOK (ANALYSED FORM) (say) page 25.

Purchases for the month of May 1925.

Date.	Bought from	Particulars.	Ledger Folio.	Details. £	s.	d.	Linen Dept. £	s.	d.	Glass Dept. £	s.	d.	Costume Dept. £	s.	d.	Fur Dept. £	s.	d.	Total. £	s.	d.
1925		Brought forward (say)					50	7	6	122	2	6	300	0	0	410	10	0	883	0	0
May 18	R. Cross	24 Skunk Collars		120	0	0															
		10 Pieces Beaver	B.L.	49	10	0															
		15 Seal Wraps	76	150	0	0										319	10	0	319	10	0
" "	M. Queen & Co.	5 Tweed Costumes	B.L.	20	0	0															
		10 Serge "	121	60	0	0							80	0	0				80	0	0
" 19	S. H. Glass Co.	1 gross Vases	B.L.	6	10	0															
		1 doz Glass Jugs	96	3	5	0				9	15	0							9	15	0
" "	F. Cox & Co.	20 yds. Irish Linen	B.L. 78				5	2	6										5	2	6
		(say) Total for Month	I.L. 126				£55	10	0	£131	17	6	£380	0	0	£730	0	0	£1,297	7	6

The Purchases Account in the Impersonal Ledger containing only the above items would appear as follows:—

(say) page 126.

Dr. PURCHASES ACCOUNT *Cr.*

		Folio.	Linen Dept. £	s.	d.	Glass Dept. £	s.	d.	Costume Dept. £	s.	d.	Fur Dept. £	s.	d.	Total. £	s.	d.			Folio.	Linen Dept.	Glass Dept.	Costume Dept.	Fur Dept.	Total.
1925 May 31	To Purchases for month.	P.B. 25	55	10	0	131	17	6	380	0	0	730	0	0	1,297	7	6								

From the example it is clearly seen how much has been expended by each department, and also how the departmental figures can be shown separately in the Purchases Account in the Ledger by adopting similar ruling. It should be mentioned, however, that the specimen Purchases Account is in effect four accounts, each column representing a different set of transactions. Therefore, the same results can be obtained by opening four separate single column accounts, although this arrangement is not so convenient in practice, because it is not so easy to see at a glance the trend of trading, or to compare quickly the relative productivity of the departments.

30.—**Posting to Personal Accounts.** It is only the amounts shown in the outer totals column of the Purchases Book which are posted to the credit of the personal accounts of the various suppliers in the Bought Ledger. The departmental columns are totalled and carried forward into the corresponding columns from page to page, until the end of the month, when they are then posted to the debit of the Purchases Account in the Impersonal Ledger, as shown on page 29. Cash purchases are passed through the Cash Book, not through the Purchases Book, and are posted direct to the Purchases Account.

THE SALES DAY BOOK

31.—Sales upon credit to customers are similarly recorded, the book used being called the "Sales Day Book," "Sales Book," or "Sales Journal."

The entries are made day by day as the sales occur, in much the same way as described for the Purchases Book, and, in fact, the ruling of the Sales Book, whether in the simple or analysed form, is identical with that of the Purchases Book. The reason for this is obvious when it is recollected that purchases were analysed into separate departmental columns for recording what each department received, and by showing sales similarly analysed, the resulting position of each department can be stated.

The amount charged in the Sales Day Book to each customer is posted to the *debit* of his respective personal account in the Sales Ledger. The corresponding credit to complete the double entry is secured by posting, in one amount, the total sales for the month to the credit of a **Sales Account** in the Impersonal Ledger. Otherwise the procedure is identical with that of dealing with purchases as already explained. Cash or ready money sales are entered in the Cash Book, not in the Sales Day Book, and are posted from the Cash Book direct to the Sales Account.

SALES DAY BOOK (Simple Form) (say) page 14.

Date.		Particulars.	Ledger Folio.	Details. £	s.	d.	Totals. £	s.	d.
1924		Brought forward (say)	—	—	—	—	426	5	6
July	27	J. Watson & Co., 15 Grove St., Leeds.							
		12 Costumes		72	0	0			
		2 Fur Collars		9	15	0			
				81	15	0			
		Less 5% Trade Discount . .		4	1	9			
			S.L. 151				77	13	3
"	31	B. Brown, 11 Sidney Grove, W.							
		1 doz. Vases		2	12	6			
		6 Writing Pads . . .			18	0			
			S.L. 96				3	10	6
		Total for Month . . .	L.L. 183				£507	9	3

The personal accounts in the Sales Ledger would appear as follows :—

J. WATSON & CO., 15 Grove Street, Leeds

Dr. *Cr*

				£	s.	d.						£	s.	d.
1924 July	27	To Goods .	S.B. 14	77	13	3								

B. BROWN, 11 Sidney Grove, W.

Dr. *Cr*

				£	s.	d.						£	s.	d.
1924 July	31	To Goods .	S.B. 14	3	10	6								

The Sales Account in the Impersonal Ledger will show the Sales Book total thus :—

SALES ACCOUNT

Dr. *Cr.*

										£	s.	d.
						1924 July	31	By Sales for the Month.	S.B. 14	507	9	3

All the above may be kept on the columnar method, as shown for the Purchases Book and Purchases Account.

RETURNS OUTWARDS BOOK

32.—This is also known as the "Bought Returns Book" or "Debit Returns Book."

It is inevitable in business that some of the goods purchased have to be returned to the suppliers for some reason or other. Some goods are not as ordered, or not up to sample; others may arrive damaged. Such goods must be "charged back," i.e. debited.

It is customary to pass the full invoice as received from the suppliers, entering the items in the Purchases Journal without alteration, but making a contra invoice (called a "**Debit Note**") against the supplier, which will be deducted from his account at the time of payment later on. The following is a specimen Debit Note :—

Debit Note No. 34.

29-31 Cannon Street, London, E.C. 4,
16th March 1924.

Messrs. Judd & Co. Ltd.,
Norwich.

Dr. to JAMES, FURNISH & CO.,
Outfitters and Tailors.

			£	s.	d.
	To 6 doz. Linen Collars returned, not up to sample	@ 7/	2	2	0

If the supplier agrees to the return of the goods, or accepts the contra charge, he usually signifies this by sending a "**Credit Note.**" The Credit Note resembles an invoice, but is generally

distinguished by being printed in red, and red ink is used for the written portion also.

Credit Note No. 12.

18 JUDD STREET, NORWICH,
18th March 1924.

Messrs. JAMES, FURNISH & Co.,
London, E.C.

Cr. by JUDD & CO. LTD.
Manufacturers.

			£	s.	d.
	By 6 doz. Linen Collars returned . . .	@ 7/	2	2	0

NOTE.—*In practice this would all be in red ink.*

These returns are usually rather numerous, hence the need for a special subsidiary book for keeping a record of them, as shown below :—

RETURNS OUTWARDS BOOK (Simple Form)

Date.		Particulars.	Ledger Folio.	Details.			Totals.		
				£	s	d	£	s	d
1925 May		Brought forward (say)	—	–		–	18	0	0
	18	M. Queen & Co., Castle Street, W.1							
		2 Costumes, damaged in transit .		20	0	0			
		1 Costume, wrong size .	B L 121	4	0	0	24	0	0
"	"	R. Cross, London, E.C.							
		2 Seal Wraps, bad finish	B L 76	–			20	0	0
		Total for Month .	I L 148				£62	0	0

The entries are posted to the debit of the supplier's personal accounts, in the Bought Ledger, thus reducing the amount payable to them ; whilst the double entry is effected by posting the monthly total of the Returns Outwards Books to the credit of the " Returns Outwards " Account in the Impersonal Ledger.

An analysed form as appended may be used to correspond with the analysed Purchases Book, and is desirable where that form of Purchases Book is in use.

Besides using this book for actual goods returned, it often includes " charges back," such as an overcharge, cases charged and returned, etc., thus avoiding alteration of invoices.

Reference Library of the Bennett College:

RETURNS OUTWARDS BOOK (Analysed Form)

Date.	Returned to	Particulars.	Ledger Folio.	Linen Dept.			Glass Dept.			Costume Dept.			Fur Dept.			Total.		
				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
		Brought forward	—	2	10	0	5	7	6	10	2	6	—	—	—	18	0	0
1923 May 18	M. Queen & Co., Castle St., W.1.	2 Costumes, damaged in transit . . .								20	0	0						
		1 Costume, wrong size	B.L. 121							4	0	0				24	0	0
" 28	R. Cross, London, E.C. . . .	2 Seal Wraps, bad finish . . .	B.L. 79										20	0	0	20	0	0
		Total for Month .	I.L. 148	£2	10	0	£5	7	6	£34	2	6	£20	0	0	£62	0	0

The item £24 in the total column is debited to M. Queen's Account, and the £20 to R. Cross's Account in the Bought Ledger. The totals for the month are credited to "Returns Outwards" Account in the Impersonal Ledger.

RETURNS INWARDS BOOK (Analysed Form)

Date.	Returned by	Particulars.	Ledger Folio.	Linen Dept.			Glass Dept.			Costume Dept.			Fur Dept.			Total.		
				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
		Brought forward	—	1	0	0	3	5	0	—	—	—	5	10	0	9	15	0
1924 July 7	J. Wills, Bradford	1 Fur Jacket, damaged	S.L. 151										16	5	0	16	5	0
" 31	F. Moss, Lion St., E.C. . . .	1 Tweed Costume, moth-eaten . .	S.L. 96							15	15	0				15	15	0
		Total for Month .	I.L. 156	£1	0	0	£3	5	0	£15	15	0	£21	15	0	£41	15	0

The totals in the last column are credited to Customers' Accounts in the Sales Ledger, and the totals for the month are debited to the "Returns Inwards" Account in the Impersonal Ledger.

RETURNS INWARDS BOOK

33.—This book is sometimes called the "Sales Returns Book," or "Credit Book," and is identical in form with the Returns Outwards Book, but is used for recording details of goods returned by customers for any reason. If the "return" is approved a "Credit Note" is sent to the customer, and the amount allowed at the time the account is paid.

RETURNS INWARDS BOOK (Simple Form)

Date		Particulars	Ledger Folio.	Details.			Total.		
				£	s.	d.	£	s.	d.
1924		Brought forward	—	—	—	—	9	15	0
July	7	J. Wills, Bradford, 1 Fur Jacket, damaged . .	S.L. 151				16	5	0
"	31	F. Moss, Lion St., E.C. 1 Tweed Costume, moth-eaten . .	S.L. 96				15	15	0
		Total for Month . .	I.L. 156				£41	15	0

The entries for each customer are posted to the credit of his personal account in the Sales Ledger, thus reducing the amount he has to pay; whilst the double entry is completed by posting the monthly total of the Returns Inwards Book to the debit of a "Returns Inwards" Account in the Impersonal Ledger.

The corresponding analysed form is shown on the previous page, and this form should be used when the analysed form of Sales Day Book is adopted. Allowances to customers, besides amounts credited for returned goods, are sometimes passed through the same book. If not, a similar book has to be kept for "Allowances."

Chapter IV

THE CASH BOOK

34.—**Cash Account.** The transactions which involve cash receipts and payments are so numerous that the Cash and Bank Accounts which would ordinarily appear in the Ledger are kept in a separate book, i.e. the Cash Book, and this will now be considered before the remaining subsidiary books.

The Cash Book must be regarded as serving in a double capacity, firstly, as a book of prime entry, like the other subsidiary books just described; secondly, as a Ledger Account bound separately for convenience because of the numerous entries to be made in it, not only day by day, but frequently during each day.

Money received is debited, and money paid away is credited, and at any time the difference between the debit and credit sides of the Cash Book should be the same as the amount of money in the trader's possession.

In its simplest form the Cash Book shows no difference from an ordinary Ledger Account :—

CASH BOOK

Recording Cash only)

Dr. *Cr.*

Date.		Particulars.	Ledger Folio.	Amount.			Date.		Particulars.	Ledger Folio.	Amount.		
1920				£	*s.*	*d.*	1920				£	*s.*	*d.*
Jan.	1	To J. Brown (Cash Received) .	S.L. 12	17	9	4	Jan.	2	By B. Black (Cash paid away) .	B.L. 52	12	10	6

35.—**Bank Account.** In addition to those paid in actual cash, many transactions are settled by means of cheques, i.e. by the payment of money from the Bank, whilst cash and cheques received are also paid into the Bank from time to time. Bank items cannot be conveniently entered in the same account as cash items, and if the Cash Account is kept, as shown above, then

another account would be required in which to record bank transactions, thus :—

CASH BOOK

(Showing Bank transactions only)

Dr. | *Cr.*

Date.		Particulars.	Ledger Folio.	£	s.	d.	Date		Particulars	Ledger Folio	£	s.	d.
1921				£	s.	d.	1921				£	s.	d.
Jan.	1	To Balance at Bank . .	–	500	11	6	Jan.	1	By Jones Bros. Cheque on Account. .	24	56	7	6
"	"	To B. Black .	15	10	9	3	"	10	By Rent paid by Cheque .	76	76	0	0
"	2	" A. Dare .	29	7	6	6	"	11	By Telephone a/c paid by Cheque . .	92	5	2	6
							"	31	By Balance carried down	—	380	17	3
				£518	7	3					£518	7	3
Feb.	1	To Balance brought down	—	£380	17	3							

36.—**Double Column Cash Book.** By combining the two accounts, however, bank and cash transactions can be dealt with more conveniently. This is effected in practice by having a Cash Book, with double money columns on each side, as shown on page 39. In the first column on either side all cash items are entered, and in the second all bank items, so that the difference between the totals of the first column on the debit side and the first on the credit side represents the amount of cash on hand; similarly, the difference between the totals of the second columns on the debit and credit sides shows the amount still lying at the Bank (or overdrawn if the credit side is greater than the debit side).

It must never be forgotten that the two accounts still remain separate and independent of each other, each recording its own separate class of transactions, i.e. cash or bank, and each having its own balance.

The following transactions are recorded in the specimen "double column" Cash Book illustrated :—

			£	s.	d.
1924.					
May	1.	Balance of Cash in the Office	25	0	0
,,	1.	Balance at Bank	380	0	0
,,	1.	Received Cash for Ready Money Sales	12	10	0
,,	1.	Paid Jones Bros. by Cheque	56	7	6
,,	2.	Received Cheque from B. Black, and banked it	10	9	3
,,	2.	Received Cash from A. Dare	7	6	6
,,	10.	Paid Rent by Cheque	76	0	0
,,	10.	Paid Wages by Cash	10	0	0
,,	12.	Paid Cash to Bank	12	10	0
,,	15.	Drew Cash from Bank for Office Cash	20	0	0

To show the resulting balance of cash at the office and at the Bank the Cash Book is balanced off on 15th May, and the balances carried down.

It will be noticed that when cash is paid into the Bank from the office cash two entries must be made, (1) in the "Cash" column on the credit side, (2) in the "Bank" column on the debit side. Conversely, when cash is drawn from the Bank for use in the office the amount must be credited in the "Bank" column on the credit side, and debited in the "Cash" column on the debit or left-hand side. In the folio column on each side the letter "C" is entered, meaning "contra," as these items are not posted to the Ledger, the double entry being complete in the two accounts in the Cash Book. The reason for these contra entries will be obvious if it is considered that a transfer from Cash to Bank means that a "payment" of cash has been made to the Bank; and thus Cash Account is credited and the Bank Account debited with the same amount in the appropriate columns as indicated.

The ruling of the Cash Book, as shown opposite and on page 41, generally extends across two opposite pages of the Cash Book, so that the debit entries occupy the whole of the page on the left and the credit entries that on the right, but both bear the *same folio* number.

CASH BOOK

(say) page 19.

Dr. *Cr.*

Date.		Particulars (of Cash received).	Ledger Folio.	Cash. £	s.	d.	Bank. £	s.	d.	Date.		Particulars (Payments).	Ledger Folio.	Cash. £	s.	d.	Bank. £	s.	d.
1924 May	1	To Balance brought down . . .	—	25	0	0	380	0	0	1924 May	1	By Jones Bros. .	98				56	7	6
"	"	To Ready Money Sales . . .	15	12	10	0				"	10	" Rent . .	56				76	0	0
"	2	To B Black .	76				10	9	3	"	10	" Wages . .	82	10	0	0			
"	"	" A Dart .	26	7	6	6				"	12	" Cash banked .	c.	12	10	0			
"	12	" Cash Banked .	c.				12	10	0	"	15	" Cash from Bank	c.				20	0	0
"	15	" Cash from Bank	c.	20	0	0				"	15	" Balance carried down . . .	—	42	6	6	250	11	9
				£64	16	6	£402	19	3					£64	16	6	£402	19	3
1924 May	15	To Balance brought down .	—	£42	6	6	£250	11	9										

37.—**Cash Discount.** There is a custom in most businesses of allowing Cash Discount when accounts are paid. The trader probably allows discount to his customers to encourage prompt payment, whilst he himself expects, and usually secures, similar discounts from his suppliers. These discounts are usually much smaller than "trade" discounts, and as a rule they are percentages of the amount payable, e.g. 1¼ per cent., 2½ per cent., 3¾ per cent., or 5 per cent., which are the Cash Discounts most usually met with. Discounts such as these are recorded in the Cash Book as and when the corresponding item of cash is entered, whereas "Trade Discounts" are only shown as deductions in the Purchases or Sales Book, or deducted from the invoice, and ignored in the books. Cash discount allowed is entered on the same side (Dr. or Cr.) of the Cash Book as the cash entry.

Cash Discounts are entered in additional columns, as shown in the following complete form of Cash Book, in which are recorded the appended selected transactions:—

1924.
May 1. Balance of Cash in hand £25, and at Bank £380.
" 1. Paid Jones Bros. Account £60, deducting 5% Cash Discount (£3).
" 2. Received from B. Black Cheque £10, 9s. 3d., and allowed him 25s. 6d. Discount.
" 2. Received from A. Dare Cash £7, 6s. 6d., which with Discount 3s. 6d. clears his Account.
" 3. Paid Bull & Co.'s Account £10, less 2½% Discount.
" 12. Banked Office Cash £12, 10s.
" 13. Paid F. Brown Cheque £11, 8s., Discount deducted being 12s.
" 15. Received Cash from S. Smith £8, 11s., allowed Discount 9s.

38.—**Discount Columns.** Whilst the balances of the Cash and Bank columns are carried down, the Discount columns are merely totalled as they stand, and each total is posted separately to the *same side* of a Discount Account in the Impersonal Ledger, the reason being that the columns in the Cash Book are considered as memorandum columns only. The Discount columns in the Cash Account could, of course, be balanced like any other nominal account and the difference transferred to the Profit and Loss Account direct, but it is always considered better to have the summarised records in the duplicate account in the Impersonal Ledger for purposes of reference.

It must be specially noted that the discount allowed and received appear in proximity, and on the same side as the cash received and paid respectively. Each individual item is posted, along with its corresponding money payment or receipt, to the respective personal account in the Bought or Sales Ledger, as shown on page 42.

CASH BOOK (say) page 26.

Dr.																										Cr.
Date.		Particulars.	Ledger Folio.	Discount allowed (i.e. a loss).			Cash (received)			Bank (paid in).			Date.		Particulars.	Ledger Folio.	Discount received (i.e. a profit).			Cash (paid).			Bank (paid or drawn).			Voucher Number.
				£	s.	d.	£	s.	d	£	s.	d					£	s.	d.	£	s.	d.	£	s.	d	
1924 May	1	To Balances brought forward	—	—	—	—	25	0	0	350	0	0	1924 May	1	By Jones Bros.	B.L. 98	3	0	0	—	—	—	57	0	0	1
"	2	" B. Black	S.L. 70	1	5	6				10	9	3	"	3	" Bull & Co.	B.L. 36		5	0	9	15	0				2
"	"	" A. Hine	S.L. 26		[illegible]	[illegible]	7	6	6				"	12	" Cash to Bank	C.				12	10	0				—
"	11	" Cash to Bank	C.							12	10	0	"	13	" T. Brown	B.L. 39		12	0				11	8	0	3
"	15	" S. Smith	S.L. 92		[illegible]	[illegible]	8	11	0				"	15	" Balances carried down	—				18	12	6	334	11	3	
				£3	18	0	£40	17	6	£402	19	3					£3	17	0	£40	17	6	£402	19	3	
				L.L. 31													L.L. 32									
1924 May	16	To Balances brought down					£18	12	6	£334	11	3														

The numbers in the last column are for reference to the receipt vouchers kept on a file, a corresponding number being marked on each voucher. This facilitates reference to the receipted account when desired.

The posting of the items in the preceding example is shown in the following Ledger Accounts :—

(*a*) **In the Sales Ledger** (items from the *Debit* side of the Cash Book, hence posted on the *Credit* side of the Ledger) :—

B. BLACK, King Street, Bootle

Dr.													*Cr.*
							1924				£	*s.*	*d.*
							May	2	By Cash .	26	10	9	3
							,,	,,	,, Discount .	26	1	5	6

A. DARE, Cross Street, Leeds

Dr.													*Cr.*
							1924				£	*s.*	*d.*
							May	2	By Cash .	26	7	6	6
							,,	,,	,, Discount .	26		3	6

S. SMITH, Lion Road, London

Dr.													*Cr.*
							1924				£	*s.*	*d.*
							May	15	By Cash . .	26	8	11	0
							,,	,,	,, Discount .	26		9	0

(*b*) **In the Bought Ledger** (posted from the *Credit* side of the Cash Book, hence appearing on the *Debit* side of the Ledger) :—

JONES BROS., Bradford

Dr.													*Cr.*
1924				£	*s.*	*d.*							
May	1	To Cash .	26	57	0	0							
,,	,,	,, Discount .	26	3	0	0							

BULL & CO., Water Street, Liverpool

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924													
May	3	To Cash .	26	9	15	0							
"	"	" Discount .	26		5	0							

(Similarly for F. Brown's Account.)

(c) **In the Impersonal (or Nominal) Ledger.** (Notice Discounts are entered in totals only, and that these appear on the *same* side of the Ledger as they occur in the Cash Book) :—

DISCOUNT ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 May	15	To Discount allowed .	C.B. 26	1	18	0	1924 May	15	By Discount received .	C.B. 26	3	17	0

It is interesting to observe that items posted from the Cash Book to the Ledger appear on the *opposite* side of the Ledger Accounts to the entries in the Cash Book, whereas those from the Journals are entered on the *same* side of the Ledger corresponding with the columns of the Journals, i.e. items from the debit column of the Journal are posted to the debit side of the Ledger, but items *from* the debit side of the Cash Book are posted to the *Credit* side of the Ledger Accounts. The reason for this is, as previously explained, that the Cash Book is in reality a Ledger Account itself, and the act of posting it is simply making the counter-balancing entry to complete the double entry, whereas the Journal is only a subsidiary book showing on which side of the various Ledger Accounts each transaction is to be entered.

39.—**Cash Book Balances.** The difference between the total of the credit and debit columns in the Cash Book relating to *cash* receipts and payments represents the amount of cash in the hands of the cashier. In a similar way the balance of the *Bank* columns should represent the amount of money lying at the bank, but it frequently happens that the balance as shown by the Bank Pass Book does not agree. The Bank Pass Book is a small book in which the banker enters, in the order in which they occur, all payments by him as authorised by the trader, i.e. cheques drawn, and on the opposite page all receipts, i e. monies paid in from time

to time; it is, in fact, a copy of the trader's banking account as it appears in the Bank's own Ledger. The Pass Book must be obtained from the Bank at frequent intervals, and checked with the trader's own records.

Assume that the Pass Book has been brought from the Bank on the first of the month. It will be noticed that it has been totalled, and the difference between the amounts received and amounts paid is the amount of cash still in the Bank's possession (or if the account has been overdrawn, the amount owing to the Bank). It rarely happens that this balance agrees with the balance shown by the Cash Book because:—

(i) Cheques drawn, although entered immediately in the Cash Book, may be several days in the hands of the payee, or otherwise delayed before reaching the Bank, and naturally these do not appear in the Pass Book until they have been cleared, i.e. paid by the Bank.

(ii) Certain charges, or periodical payments such as annual subscriptions, made by the Bank may be shown in the Pass Book, although not yet recorded in the Cash Book.

(iii) Sometimes cheques received by the trader and banked are not credited by the Bank until it has collected the amounts from the Banks on which the cheques are drawn.

To bring the Cash Book balance into agreement with the Pass Book balance a memorandum "**Reconciliation Statement**" is made by the cashier, this being entered in the Cash Book at the end of the week or month, after the Cash Book has been "ruled off" or "balanced," as a rule in red ink, thus:—

BANK RECONCILIATION STATEMENT, 31ST JANUARY 1920.

Balance as per Bank Pass Book . . .				£2764	3	3
Add cheque on Dublin paid in 29th January not yet collected by Bank . . .				32	2	6
				£2796	5	9
Less cheques drawn but not yet presented for payment:—						
Jan. 7. Brown & Co. .	£9	3	6			
26. G. Lee . . .	75	0	0			
30. A. Dare . .	25	10	0			
31. S. Dawson .	7	0	0			
				116	13	6
Balance as per Cash Book . . .				£2679	12	3

Differences due to reason (ii) above would be entered up in the Cash Book before ruling off and balancing, and should therefore never appear in the Bank Reconciliation Statement.

40.—**Petty Cash Book.** In addition to the larger money transactions, there are many small payments made every day which, if entered in the main or General Cash Book, would occupy more space in that important book than is justifiable; and furthermore, that course would mean many trivial entries in the ledgers, unless these small items were summarised at the end of each month, and posted in totals to the appropriate accounts; but even this would result in some loss of the cashier's time which could be more profitably spent. To deal with these petty cash transactions more satisfactorily a Petty Cash Book is used, and the keeping of it is relegated to a less important employee, who acts as petty cashier, under the supervision of the Cashier.

The Petty Cash Book is usually ruled with a number of analysis columns, as shown in the following specimen, the object of this being to group together all items which come under agreed headings corresponding to various ledger accounts in the Impersonal Ledger. In effect, the analysis of these petty payments is made as each entry is recorded, by simply entering the figures in the appropriate column. This avoids tedious analysis at the end of each week or month, and by adding up the items in each column the totals can be then posted to the appropriate ledger accounts.

The use of the Petty Cash Book will be more readily understood by reference to the specimen shown on page 46.

The only receipts which affect the Petty Cash Book are the amounts handed to the petty cashier for disbursement. These are entered on the debit side, as shown. Payments are, however, numerous, and as each is made the petty cashier enters the date and particulars of the payment and then places the amount paid away in the column concerned, each column being headed with the name of the appropriate account. The columns named in the example are merely representative, and each business has its own special requirements in this respect, not only as to the headings but also as to the number of columns used. It is, however, desirable to have a "Total" column, placed last as in the specimen, or first, i.e. immediately after the "Details of Payments" column. The great value of this column is that the difference between the total of it and that of the debit side represents the amount which should be found in the petty cashier's box It also serves as a check on the accuracy of the entries and the casting of the analysis columns, as the totals of these columns added together should agree with the total of the "Total" column.

PETTY CASH BOOK

Dr. | *Cr.*

Date.	Particulars.	£ s. d.	Date.	Details of Payments.	Postages, etc. £ s. d.	Carriage and Cartage. £ s. d.	Cleaning. £ s. d.	Advertisements. £ s. d.	Sundries. £ s. d.	Ledger. Folio	Ledger. £ s. d.	Voucher Number.	Total. £ s. d.
1924 Sept. 1	To Cash	20 0 0	1924 Sept. 1	By Sutton & Co. .		5 3						1	5 3
			,, ,,	,, Postage Stamps	3 0 0							2	3 0 0
			,, 2	,, L.M.S. Railway . .		12 6						3	12 6
			,, ,,	,, Traveller's Expenses . .					3 9			4	3 9
			,, ,,	,, Brown & Co., Bristol . .						S.L. 94	1 1 6	5	1 1 6
			,, 3	,, *D. Telegraph* .				6 0				6	6 0
			,, 4	,, Telegram .					1 0			7	1 0
			,, 5	,, Office Cleaner .			4 0					8	4 0
			,, 6	,, Parcel Post .	2 3							9	2 3
			,, 7	,, Smith Bros., Lime Street, W.C. . .						S.L. 98	4 1 0	10	4 1 0
			,, ,,	,, Stationery .					1 3 0			11	1 3 0
			,, ,,	,, Rent . .						I.L. 24	3 10 0	12	3 10 0
					£3 2 3	17 9	4 0	6 0	£1 7 9		£8 12 6		£14 10 3
					I.L. 12	I.L. 18	I.L. 22	I.L. 29	I.L. 38				
			1924 Sept. 7	By Balance . .								cd	5 9 9
		£20 0 0											£20 0 0
1924 Sept. 8	To Balance b/d .	£5 9 9											
,, ,,	To Cash	14 10 3											

The columns shown are self-explanatory, with the exception of that headed "Ledger." This particular column is useful where a payment has been made which is not appropriate for any of the other columns, and which requires to be posted *individually* into a Ledger Account. Such items may not be numerous, but they can be more easily dealt with when they do occur if such a column is used. The "Ledger" column, it will be noticed, has a folio column adjacent, in which are entered the ledger folios of the accounts to which the items are posted. The other columns are totalled at the end of, say, each week or month, and only the total of each is posted to the appropriate Ledger Account, the ledger folio being shown below each. Notice that no folio appears below the "Total" and "Ledger" columns, as these totals are not posted to any account.

41.—**The Imprest System.** Petty Cash is usually kept on what is known as the **Imprest System.** Instead of handing the petty cashier an agreed regular sum of money for his cash box, a sum considered sufficient (in the example shown £20) is given into his charge, and at the end of the week (or other period) the total of his disbursements is ascertained, and this amount is refunded to him by the chief cashier, thus raising the sum left in the cash box to its original figure. In the example, the petty cashier started with £20, at the end of the week he had parted with £14, 10s. 3d., leaving £5, 9s. 9d. cash in hand. On commencing the second week he is refunded the £14, 10s. 3d. by the cashier, thus starting again with £20. This system provides a useful check, it is in very common use, and is much recommended.

As in the case of the principal Cash Book a column is provided for voucher numbers, which are particularly useful for reference when there are a large number of receipts to be filed.

42.—**Erasures.** Under no circumstances whatever should erasures be made in a Cash Book; clerical errors are sometimes corrected by book-keepers by erasing entries for the sake of neatness, and whilst this is sometimes overlooked in other books, from an auditor's point of view it is rightly considered highly dangerous and improper in Cash Books, and corrections should never be made in this way. It is better to rule out neatly the wrong entry and re-write it correctly, or sometimes a correcting contra entry can be made.

Chapter V

BILLS RECEIVABLE

43.—**Treatment of Bills Received.** Indebtedness is sometimes discharged by means of a Bill of Exchange, and when one is received from a debtor particulars of it should at once be recorded in the Bills Receivable Book. The details to be entered in connection with Bills Receivable are more numerous than for other forms of payment, as it is necessary to know who are the parties liable on the bill, and when and where it is to be paid.

44.—**Form of the Bills Receivable Book.** The Bills Receivable Book may be ruled in a variety of convenient forms which vary considerably in practice according to the class of trade, e.g. whether inland, eastern, or colonial, whilst modifications are often desirable to suit different foreign currencies and to record differences in foreign exchange, etc. For present purposes the usual form of Bills Receivable Book is given on page 49. It is recommended that this form be memorised, together with that of the Bills Payable Book given later, as these rulings are very frequently asked for in examinations.

The date on which the bill is received is entered in the first column, and often has little relation to the date when the money it represents is due or collected.

Bills are usually given a distinguishing number, hence the second column provides for this; whilst a "Remarks" column is added for keeping a record of useful notes regarding the fate, or any special treatment, of the bills.

The name of the person whose account has to be credited is entered in the column "From whom received," and as a general rule the "Acceptor" whose name appears in the next column is the same person, i.e. the debtor. Similarly, the "drawer" is most often the proprietor of the business to whom the "acceptor" is indebted, as exemplified in Bills No. 28 and 30. In the case of Bill No. 29, this was drawn by J. Clark and accepted by Mason Bros., and probably was then negotiated by J. Clark either directly to F. Moss & Co. or through other indorsers, from the last of whom F. Moss & Co. received it. F. Moss & Co. then indorsed the bill and passed it on to our trader in settlement of an amount owing. This explains the apparently irrelevant names recorded.

BILLS RECEIVABLE BOOK

Date Received.	No	From whom Received.	Acceptor.	Drawer.	Where Payable.	Date Drawn.	Tenor.	Due Date.	Ledger Folio.	£	s.	d.	Remarks.
								Brought	forward	211	10	0	
1925 May 18	28	M. Queen & Co.	M. Queen & Co	Selves	City Bank, Jewry St	16/5/25	(say) 3 months after date	Aug. 19 1925	S.L. 121	69	10	6	Cash received 19/8/25.
" 26	29	P. Moss & Co.	Mason Bros.	J. Clark	Cox & Co., Kingsway	23/5/25	5 months after sight	Oct. 26 1925	S.L. 97	263	5	3	Discounted with Bank 26/8/25: charges £2, 7s. 4d.
" 31	30	T. Timms	T. Timms	Selves	Lloyds Bank, Barnsley	30/5/25	2 m/d	Aug. 2 1925	S.L. 152	200	0	0	
" "	31	Burgay & Co., Bahia	Bank of Brazil, London	Bank of Brazil, Bahia	Bank of Brazil, London	29/4/25	90 days after sight	Sept. 1 1925	S.L. 271	100	0	0	* Accepted London 31/5/25 for proceeds of bill sent for collection 20/12/24.
							Total	for month	I.L. 72	£844	5	9	
1925 June 11	32	Sims Bros., Melbourne	Bank of Australasia, London	Bank of Australasia, Melbourne	Lloyds Bank, London	6/5/25	90 d/s	Sept. 11 1925	S.L. 202	£500	0	0	* Accepted London 10/6/25 for proceeds of bill sent for collection 18/12/24.

* These are bills drawn by the collecting Bank abroad. The original bill sent for collection from England in December was paid at maturity, and the sum collected less charges was sent to London by the 90 d/s draft entered here, the 90 days running from the time of acceptance by the Bank's London Office. In many cases, however, such remittances to London are sent by "sight" drafts on London payable at once.

NOTE.—The individual amounts of the bills are posted to the Sales Ledger to the credit of the Accounts of the firms named in the first column. The total for the month is debited to the Bills Receivable Account in the Impersonal Ledger, viz. £844, 5s. 9d. Only those bills cashed during *August are shown in the* specimen Cash Book and Bills Receivable Accounts on pp. 51-52; hence bills Nos. 31 and 32 which fall due in September do not appear therein.

The place "where payable" is copied from the acceptance written across the bill, and the actual date appearing on the bill is entered in the next column.

The date in the column headed "Due Date" includes the days of grace, if any.

45.—**Posting to the Ledgers.** The amount of each bill is posted from the Bills Receivable Book to the credit of the debtor's account in the Sales Ledger, and the total of the Bills Receivable Book is posted to the debit side of a special Bills Receivable Account in the Impersonal Ledger, completing the usual double entry.

46.—**Collection of Bills.** Payment of the bill, unless it be "at sight" or "on demand," is receivable on the third day after it falls due, and the place of payment is usually indicated on the bill itself. It is customary to pay bills into the Bank two or three days before the day on which payment is due, the Bank taking the responsibility of making the actual collection of the money, which it will then credit in the pass-book. Bills so passed to the Bank for collection are known as **Short Bills,*** and they should *not* be entered in the Cash Book until the actual due date, although in the meantime a note should be made that the Bank has the bill for collection; such a note is sometimes made by entering the item in the Cash Book, but instead of extending the amount into the Bank column, writing it "short," i.e. to the left of the money columns. After the bill has been entered on the debit side of the Cash Book it is posted from there to the credit of the Bills Receivable Account in the Impersonal Ledger to complete the double entry. The balance of the Bills Receivable Account must therefore represent the amount of Bills Receivable still remaining to be collected.

Thus the items in the example on page 49 would be recorded in the Cash Book and Ledgers as follows:—

(*a*) In the Sales Ledger.

BURGAY & CO., Bahia, Brazil

Dr. *Cr.*

											£	s.	d.
							1925 May	31	By Bill Receivable due 1/9/25 . .	B.R. 21	100	0	0

* This term is also frequently used to refer to bills whose currency or tenor is not more than seven to ten days, as distinct from Long Bills, e.g. two to six months or more.

M. QUEEN & CO., Oxford Street, W.

Dr. *Cr.*

Date		Particulars	Fo.	£	s.	d.	Date		Particulars	Fo.	£	s.	d.
							1925 May	18	By Bill Receivable due 19/8/25	B.R. 21	60	10	6

SIMS BROS., Main Street, Melbourne

Dr. *Cr.*

Date		Particulars	Fo.	£	s.	d.	Date		Particulars	Fo.	£	s.	d.
							1925 June	11	By Bill Receivable due 3/9/25	B.R. 21	500	0	0

F. MOSS & Co., City Road, Liverpool

Dr. *Cr.*

Date		Particulars	Fo.	£	s.	d.	Date		Particulars	Fo.	£	s.	d.
							1925 May	26	By Bill Receivable due 26/10/25	B.R. 21	263	5	3

T. TIMMS, Church Street, Leeds

Dr. *Cr.*

Date		Particulars	Fo.	£	s.	d.	Date		Particulars	Fo.	£	s.	d.
							1925 May	31	By Bill Receivable due 3/8/25	B.R. 21	200	0	0

(*b*) **In the Cash Book.** These entries would be made on the due date of the bills. (Debit side only shown.)

Dr.

Date		Particulars	Fo.				£	s.	d.
1925 Aug.	3	To Bill Receivable (T. Timms)	L. 72				200	0	0
"	19	To Bill Receivable (M. Queen & Co.)	L. 72				60	10	6
"	26	To Bill Receivable discounted (F. Moss & Co.)	L. 72				263	5	3*

* Discount of £2, 7s. 4d. will be entered in Bank column credit side.

(c) In the Impersonal Ledger.

BILLS RECEIVABLE ACCOUNT

Dr. *Cr.*

1925				£	s.	d.	1925				£	s.	d.
May	31	To Sundries as per Bills Receivable Book .	B.R. 21	844	5	9	Aug.	3	By Cash (T. Timms) .	C.B. 76	200	0	0
							"	19	By Cash (M. Queen & Co.)	C.B. 76	69	10	6
							"	26	By Cash (F. Moss & Co.'s acceptance discounted) .	C.B. 76	263	5	3

47.—**Negotiation of Bills.** As a bill is a negotiable instrument, it may be transferred from one person to another. and the latter is not prejudiced by any defect of title on the part of the transferor or any previous holder if he takes it for value and without notice of any such defect; in other words, he acquires all the rights in the bill and can sue upon it in his own name.

If a bill is payable "*to bearer*" it is transferred by mere delivery, as also is a bill to order, indorsed in blank; i.e. where the holder to whom it is payable indorses his signature without specifying an indorsee.*

A bill which is payable "to order" may be negotiated to some one else by the holder indorsing it to that person, i.e. by adding his signature on the back. In this way the bill may be negotiated from one indorsee to another until the day of payment arrives. Every indorser becomes a person contingently liable on the bill, although the acceptor is always the party primarily liable, an indorser being liable to pay the amount of the bill to the holder at the time of maturity *only* in the event of the acceptor and all previous indorsers being unable to meet the obligation.

Hence when a holder of a bill desires to use it as a means of payment to another party he negotiates the bill as described.

Indorsements are of four kinds :—

(1) *Indorsements in blank*, where the holder to whom a bill is payable indorses his signature on the back of the bill without specifying an indorsee. In this case the bill is payable to bearer, and can be negotiated again by mere delivery.

(2) *Special indorsements*, where the holder indorses the bill to the order of another person, in addition to signing his

* Indorse, etc., may be spelt Endorse; both forms are used.

name, e.g. Pay Tom Jones or order. The bill may be further negotiated by the indorsee, but he must also indorse the bill first.

(3) *Restrictive indorsements,* i.e. where the holder indorses in such a manner as to terminate or limit the negotiability of the bill. The first two kinds of indorsements leave the bill still negotiable at the option of the indorsee or holder, but a restrictive indorsement prohibits this, as, for example, "pay Tom Jones only," or "pay Tom Jones for the account of J. Brown." It should be observed that a blank indorsement may be changed into a special indorsement, but a restrictive indorsement cannot be changed, except by the party who so indorsed the bill.

(4) A fourth form of indorsement is often used by persons who are obliged to indorse a bill in a representative capacity, such as agents, who desire to eliminate their personal liability; this is the indorsement "*sans recours,*" which implies "without recourse to me."

If the number of successive indorsements occupies the whole of the space on the bill, a piece of paper may be gummed on to receive further signatures. This is called an **allonge.** The first signature on it should extend partly on to the original bill for safety.

48.—**Entries to be made on Negotiation.** The date of negotiation and name of indorsee are recorded in the "Remarks" column in the Bills Receivable Book. The creditor to whom the bill is indorsed is debited with the amount of the bill, and the Bills Receivable Account is credited. In actual practice such transactions are usually first recorded in a special Journal.

49.—**Discounting Bills.** It sometimes happens that a trader requires cash for a Bill Receivable before the arrival of the due date, and, *provided the acceptor's or the trader's own credit* is known to be sufficiently good, the bill can generally be sold to a banker, who will advance its value less an agreed amount of discount. The rate of discount, which varies according to the class of bill, is calculated on the face value of the bill from the date of purchase until maturity. For example, a bill for £100 received on 1st July due to be paid on 4th September, and sold to the Bank on 4th July, at 5 per cent. would cost a trader 17s., i.e. 62 days' interest on £100 at 5 per cent per annum.

When a Bill Receivable is discounted in this way the fact should be noted in the "Remarks" column of the Bill Book.

The other entries to be made are simple The face value of the bill (£100) is usually credited by the Bank in the trader's

current account, the discount (17s.) being debited; therefore corresponding entries must be made in the trader's Cash Book (Bank column). That is, the full value of the bill is debited in the Bank column of the Cash Book, and the discount is entered in the Bank column on the opposite side. The net result is an increase in the Bank balance of £99, 3s. These items are then posted from the Cash Book; the £100 to the credit of the Bills Receivable Account in the Impersonal Ledger (because the bill value £100 has been parted with); and the 17s. to the debit of the "Discounting Charges" Account, or sometimes in practice to "Bank Charges," or "Bank Interest Account," in the same Ledger. These discount charges should not be entered in the Discount column of the Cash Book, otherwise they would be confused with ordinary cash discounts which are posted in total to the Discounts Account in the Ledger. The discount deducted when a bill is so cashed at the Bank is more in the nature of loan interest, and has no relation to either "Cash" or "Trade" discount. The correct entry is in the Bank column on the credit side of the Cash Book.

50.—**Dishonoured Bills.** If for any reason a bill should be returned unpaid, i.e. dishonoured, the entry made in the Cash Book on the due date must be reversed by making a contra entry of the amount on the credit side of the Cash Book, in the Bank column. This contra entry is then posted to the debit of the customer's account. Any charges or expenses incurred through the dishonour of a bill are usually charged to the debtor's personal account.

Dishonour must immediately be notified to the drawer and any intermediate indorsers.

51.—**Noting.** Before returning the unpaid bill the collecting Bank, in the absence of definite instructions to the contrary, will usually have the bill "Noted" by a Notary Public. This means that the bill is given to the notary, who re-presents the dishonoured bill, and is thus able to confirm the dishonour and the reason for non-payment. He then attaches a Noting Ticket to the bill,

NOTING TICKET

> PERCY LAW & Co.
> Notaries,
> Gresham Chambers,
> London, E.C.
>
> Noting Charges, 7/6.
> Unable to pay this month.

stating his charges and the reason for dishonour. Commonly quoted reasons are "Refer to Acceptor," "No Instructions," and "No Funds."

Noting is not essential for an Inland Bill, but is advisable as a preliminary to a subsequent "protest" in the case of an acceptance or payment "for honour," i.e. when some one not liable on the bill accepts or pays it as a friendly act for the honour of the drawer or indorser. *Foreign bills must, however, always be noted* as well as protested in case of dishonour, otherwise the drawers and indorsers are discharged (but not the acceptor).

52.—**A Protest** is a more formal legal declaration in writing made by a notary public attesting to the dishonour. It contains *a copy of the bill, states at whose request the bill is protested*, the place and date of protest, the reason for dishonour, and the notary's signature. It must be stamped to the same value as the bill itself, but not exceeding 1s.

The protest must be made on the same day as dishonour, *or on the following day if the bill was presented and returned by* post, *unless* it has been noted, in which case protest can be made later. Noting, however, must be made on the day of dishonour, or the following day, in which case the protest may be extended as of the day of noting (*Bills of Exchange (Time of Noting) Act*, 1917).

The charges for protest are much heavier than for noting, and sometimes run to several pounds. It is usual to pay these charges at once, and then to charge them to the party dishonouring the bill.

53.—**Entries necessary on Dishonour.**

(i) If sent for collection through the Bank :—

Credit the Bank in the Cash Book with the full amount of the bill, and with the charges incurred.

Debit the customer's account by posting this amount to his account.

(This does not apply to Foreign Bills sent for collection, which have not been entered in the Cash Book or Ledger : see par. 63, page 58.)

(ii) If the bill has been negotiated to a creditor or banker, and is subsequently dishonoured :—

Credit his personal account with the amount of the bill *and charges ; and*

Debit the account of the party from whom the bill was received.

This would be effected by a Journal entry, e.g.

P. Brown's acceptance (Bill No. 24) for £150, received 12th Jan., was indorsed and sent to C. White on 20th Jan. At the due date 31st Jan., C. White returned the bill which was dishonoured, claiming £150, plus 7s. 6d. noting charges paid by him.

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				Dr. £	s.	d.	Cr. £	s.	d.
1924 Jan.	31	P. Brown . . .	S.L. 16	150	7	6			
		To C. White . .	B.L. 21				150	7	6
		P. Brown's acceptance (Bill No. 24) dishonoured. Notingcharges 7 6.							

54.—**Foreign Bills.** A foreign bill is a bill drawn in one country and payable in another, or according to the Bills of Exchange Act, Section 4, it is any bill which does not fall within the definition of an Inland Bill.

55.—**Bill in a Set.** It has long been customary to draw foreign bills in sets of three, but there is a growing tendency for them to be drawn in sets of two since postal and shipping services have become quicker and more reliable. Each copy of the set is called a "*via*," and bills are so drawn in order that the separate vias can be sent by different mails. This minimises the chance of delay and risk of loss, as each via states that it is to be paid providing that the others remain unpaid. A bill drawn in a set of three is usually worded as follows :—

No. 361. £150, 10s. 6d. LONDON,
31st January 1924.

Stamp

Ninety days after *sight* pay this *First* of Exchange (*Second and Third* of the same date and tenor unpaid) to *The Bank of London and America* or order, *One hundred and fifty pounds ten shillings and sixpence*, Value received.

J. BULL & CO.

To Mr. F. Kelley,
Kingston, Jamaica.

The second and third vias would be altered accordingly. For another very frequently used form, including an *Exchange Clause*, see Example 1, page 59.

56.—**Sola Bill.** Sometimes it is considered unnecessary to draw a bill in a set, especially where there is a frequent and rapid postal service, e.g. to France, Holland, etc., in which case the wording is "*Thirty days* after sight pay this *Sola* of Exchange to the Bank of London or order . . ."

57.—**The Currency in which Bills are drawn** has to be considered. A bill drawn in foreign currency usually involves a gain or a loss in exchange to the trader in England who drew the bill, but a bill drawn in sterling produces the exact amount drawn (less charges), and any gain or loss affects only the drawee abroad. A bill in sterling sent abroad for collection usually contains some instruction or other as to the rate of exchange at which the money collected must be remitted to England, for although drawn in sterling it is paid in the currency of the country, and the rates for sending a return draft in sterling to England vary. A clause is therefore added, as for example in the specimen bill No. 1 shown on page 59. Another form of wording of such a clause is "payable at the rate of exchange as per indorsement" (or as per first London indorsement), in which case instead of the drawee paying at the rate prevailing on the day of payment, he pays at the stipulated rate, and he knows in advance exactly what amount of currency he will have to provide to meet the bill.

58.—**Documentary and Clean Bills.** Sometimes foreign bills are drawn and despatched for acceptance with shipping and other documents attached, such documents being delivered to the drawee only on the fulfilment of a stipulated instruction stated on the bill itself, e.g. "documents on acceptance" or "documents on payment," which means the documents will only be handed over when the drawee "accepts" or pays the bill as the case may be. Such bills are known as "Documentary Bills." If no documents are attached bills are called "Clean Bills."

59.—**Usance** is the period of time fixed by custom for the payment of bills, and it varies between different countries. Thus between London and Bombay it is thirty days; between London and New York, sixty days; between London and various towns in South America, ninety days. Bills made payable "at usance" on the above places would be due after the times indicated. Bills drawn for a tenor different from usance, for a special reason or by arrangement, are not governed by customary usance.

60.—**Hypothecation.** When a merchant draws bills for goods shipped he frequently secures an advance from his banker against them (usually 80 per cent.) or discounts the bills before they go abroad for acceptance and payment At the present day such advances may be made upon the good credit of the merchant, but the banker sometimes requires a "Letter of Hypothecation" which places the documents and goods at the disposal of the bank in case of the bill being dishonoured Hypothecation is much less frequent now than it was formerly.

61.—**Rebates.** If the drawee pays a bill before the due date it is customary to allow him a cash discount, or rebate, at

the current or an agreed rate per cent. per annum for the unexpired period of the bill.

62.—**Stamp Duty.** Every bill, whether Inland or Foreign, must be stamped with the proper duty if payable or negotiated in the United Kingdom, or if drawn in the United Kingdom and payable abroad, in accordance with the scale below.

(1) Payable on demand, or at three days after date or sight, 2d. impressed duty stamp (blue) or a postage stamp may be used, whatever the amount of the bill.

(2) Payable at more than three days after date or sight, the duty is *ad valorem*:

Up to £10 . .	2d. impressed duty stamp (red).	
Over £10 and not exceeding £25 .	3d.	ditto.
,, £25 ,, ,, £50 .	6d.	ditto.
,, £50 ,, ,, £75 .	9d.	ditto.
,, £75 ,, ,, £100 .	1s.	ditto.
Every additional £100 or part thereof	1s.	ditto.

Only one via need be stamped when a bill is drawn in a set.

Bills drawn in England *must* be stamped before being signed by any party, they cannot be stamped after except by paying a penalty of £10.

(3) Bills *drawn abroad* and payable or negotiated in the United Kingdom must be stamped with an adhesive bill stamp as follows:—

Up to £50 as stated above.	
Over £50, but not exceeding £100 . .	6d.
For every £100 or fraction thereof . .	6d.

63.—**Foreign Bills sent for Collection.** Particulars of bills sent for acceptance and collection are recorded in a memorandum book, but otherwise no entry is made in the books until the proceeds of the bill are received. If these proceeds are received in the form of a sight draft or cheque the full amount of the bill is then entered in the Cash Book, from whence it is credited to the customer's personal account, whilst any Bank charges, foreign stamp duties, or loss due to the exchange are entered separately on the other side of the Cash Book and posted to the proper nominal account in the Impersonal Ledger. Should there be a gain on exchange more cash would be received, and the difference would be posted to the credit of the nominal account. Sometimes, however, the *return* draft for the proceeds is not payable until some period of usance elapses, as, for example, those from South America (payable after ninety days from acceptance in London), and often those from Australasia and South Africa (which may be payable at sight, thirty, sixty, or ninety days after sight, according

to arrangement). In such cases these bankers' remittances should be treated as bills receivable. As such bills are issued by bankers abroad upon the London offices they are "fine" bills, and can be discounted at more favourable rates than trade bills. Two such return remittance bills are shown in the example on page 60.

64.—**Specimen Bills.** The following examples of foreign bills are representative of those in common use:—

A.—**Clean Bills**:—

(1) A bill suitable for collecting money abroad for payment to some one else in the same country.

> No. 269. £750. LONDON,
> *1st April 1924.*
>
> 2d Stamp
>
> *On demand* pay this *First* of Exchange (the original of same tenor and date being unpaid) to us or our order, the sum of *Seven hundred and fifty pounds Sterling* at the current rate of Exchange on day of payment, Value received.
>
> A. B. LTD.
>
> *To* The American Agency,
> Buenos Aires

This bill would be indorsed on the back by A. B., Ltd., to the person to whom they desire to pay the money collected. It is a form often used by bankers for effecting payments abroad, the drawee being their agent or branch office.

(2) Form suitable for drawing on Colonial customers to provide for fluctuations in the Sterling Exchange which have been marked during the last few years, especially in Australasia and South Africa. It is equally suitable for foreign countries when the goods are invoiced in sterling instead of local currency.

> No. 261 £200. 15s. LONDON
> *2nd April 1924*
>
> 3 Stamp impressed
>
> *Sixty days* after *sight* of this *First* of Exchange (*Second* of same tenor and date unpaid) pay to *The New Bank of Australasia* or order the sum of *Two hundred pounds fifteen shillings*, Value received. Payable at the collecting bank's selling rate on day of payment for *demand** drafts on London.
>
> J. BULL & Co.
>
> *To* Messrs. A. Colonial & Co.,
> Melbourne.

* Or "for sixty or ninety days sight drafts on London," i.e. the tenor of the Return bill by means of which the proceeds will be remitted to London.

This bill would be handed to the Bank in London to be sent for collection and when paid at maturity to the Bank in Australia, the proceeds would be remitted to England by another bill payable at sight, thirty, sixty, or ninety days after reaching London, according to the requirement of the clause inserted in the bill sent out.

B.—**Documentary Bills:—**

(3) A "Documents on Payment" Bill.

> No. 262 £300 LONDON,
> 3rd April 1924.
>
> 3 Stamp impressed
>
> *Ninety days* after *sight* of this *First* of Exchange (*Second and Third* of same date and tenor unpaid) pay to us or our order the sum of *Three hundred pounds*, Value received against B.C.L. 52.56=5 *cases of Leather Goods per* S.S. "*Castle*" and place to account as advised. Documents against payment. A. SHIPPER & Co.
>
> *To* Messrs. J. Botha & Co.,
> Cape Town.

The Exchange Clause shown in the preceding example is often included also.

This bill would be indorsed thus:—

Pay to the Bank of Africa or order
A. Shipper & Co.

(4) A "Documents on Acceptance" Bill with interest clause:—

> No. 263. £500, 10s. LONDON,
> 4th April 1924.
>
> 6 Stamp impressed
>
> *Thirty days* after *sight* of this *First* of Exchange (*Second* of the same date and tenor unpaid) pay to the order of *The Chartered Bank of India* the sum of *Five hundred pounds ten shillings* Sterling payable at the drawing rate of the *Chartered Bank of India* for *demand* drafts on London, with interest at seven per cent. per annum added thereto from date hereof to approximate due date of arrival of remittance in London, value received. Documents against acceptance.
> A. SHIPPER & Co.
>
> *To* Messrs. Kaberjee Bros.,
> Karachi.

The documents usually attached to documentary bills are: Invoice, Statement of Account, Bill of Lading, Marine Insurance Policy, and (less frequently) a Letter of Hypothecation to the Bank.

Chapter VI

BILLS PAYABLE

65.—**Methods of Settling Accounts.** It is customary in some trading concerns to settle accounts for purchases by means of Bills Payable, although in many kinds of business, except for *foreign transactions, this mode of settlement has diminished* considerably in favour of the more ubiquitous cheque.

Where, however, a trader effects payment by means of a bill, his creditor draws a bill upon him and sends it for his "acceptance," or he himself may draw a bill in favour of his creditor, write his "acceptance" across the face of the bill and send it to the creditor, who will sign it in just the same way as if he had drawn it himself.

On "accepting" a bill the trader undertakes to pay the bill on the due date according to its tenor, and full particulars must be entered in the Bills Payable Book immediately on acceptance, and before the bill is returned to the payee.

66.—**The Form of the Bills Payable Book** is rather similar to that of the Bills Receivable Book, and the specimen ruling on page 62 is the form in most general use.

In the first two columns the date of acceptance and bill number are entered.

The next three columns show :—

(1) The Creditor. (2) The Drawer. (3) The Payee.

The first name entered is that of the creditor whose account has to be paid, and this person's account is debited with the amount of the bill by posting it from the Bills Payable Book. The second name column is for the name of the drawer, and is usually the same as that in the first column, viz. the creditor. The next column states the payee's name, and this again is generally the same as the drawer, i.e. the creditor. Sometimes, however, it is a third person; thus instead of the creditor drawing the bill in this way :—

Three months after date pay me or my order one hundred pounds, Value received.

A. DARE (the Creditor).

To J. Bull (the Debtor)
Liverpool.

Reference Library of the Bennett College:

BILLS PAYABLE BOOK

Date Granted.	No. of Bill.	To whom given.	Drawer.	Payee.	Where Payable.	Date of Bill.	Tenor.	Due Date.	Ledger Folio of Account debited.	Amount. £	s.	d.	Remarks.
1925 May 1	1	J. Ross	J. Ross	J. Ross	City Bank	1925 May 1	2 months after date	July 4 1925	B.L. 124	67	12	6	
„ 18	2	M. Reeves	M. Reeves	T. Black	„	„ 17	3 m/d	Aug. 20 1925	B.L. 127	250	0	0	
„ „	3	A. Dare	A. Dare	F. Brown	„	„ 18	1 month	June 21 1925	B.L. 74	43	2	9	
„ 31	4	E. Bell & Co.	E. Bell & Co.	E. Bell & Co.	„	„ 30	5 m/s	Nov. 2 1925	B.L. 52	200	0	0	
							Total	for month	I.L. 83	£560	15	3	

The grand total is posted to the credit of the Bills Payable Account in the Impersonal Ledger; and the amount of each bill to the debit of the persons named in the first column, in their respective accounts in the Bought Ledger.

he might desire the amount to be paid to some one else to whom he is indebted, in which case he would draw the bill thus :—

> Three months after date pay *Mr. F. Brown* or order one hundred pounds, Value received.
>
> A. DARE (Creditor).
>
> To J. Bull (Debtor)
> Liverpool.

In this instance F. Brown's name would be entered in the third or "Payee" column.

The remaining columns are self-explanatory.

For the present it is only necessary to add that a day or two before the bill is due for payment the Bank should be notified and instructed to meet (i.e. to pay) the bill on presentation.

67.—**Posting the Bills Payable Book.** Each individual item in the Bills Payable Book is posted to the debit of the creditor's personal account in the Bought Ledger. The double entry is completed by posting the total of the Bill Book to the credit side of the Bills Payable Account in the Impersonal Ledger.

On the due date of each Bill Payable the Bank having paid the amount, it must be entered in the "Bank" column on the credit side of the Cash Book, from whence it will be posted to the debit of the Bills Payable Account in the Impersonal Ledger.

The entries in the Cash Book and Ledgers of the items shown in the specimen on page 62 are as below :—

(*a*) **In the Bought Ledger.**

J. ROSS, 10 King Street, Leeds

Dr.												*Cr.*
				£	*s.*	*d.*						
1925 May	1	To Bill Payable.	B.P. 45	67	12	6						

M. REEVES, 1 Portland Street, Sheffield

Dr												*Cr.*
				£	*s.*	*d.*						
1925 May	18	To Bill Payable.	B.P. 45	250	0	0						

A. DARE, 25 Regent Street, Liverpool

Dr.			£	s.	d.				*Cr.*
1925 May 18	To Bill Payable.	B.P. 25	43	2	9				

E. BELL & Co., Castle Square, London

Dr.			£	s.	d.				*Cr.*
1925 May 31	To Bill Payable.	B.P. 45	200	0	0				

(*b*) **In the Cash Book.** The items would actually appear on different folios as each date of payment falls due. (Showing credit side of book only.)

1925				£	s.	d.
June 21	By Bill Payable (A. Dare)	I.L. 83		43	2	9
July 4	„ „ (J. Ross)	I.L. 83		67	12	6
Aug. 20	„ „ (M. Reeves)	I.L. 83		250	0	0
Nov. 2	„ „ (E. Bell & Co.)	I.L. 83		200	0	0

(*c*) **In the Impersonal Ledger.**

BILLS PAYABLE ACCOUNT

Dr.			£	s.	d.				£	s.	d. *Cr.*
1925						1925					
June 21	To Cash (A. Dare)	C.B. 61	43	2	9	May 31	By Sundries, as per Bills Payable Book	B.P. 45	560	15	3
July 4	To Cash (J. Ross)	C.B. 70	67	12	6		(See note below.)				
Aug. 20	To Cash (M. Reeves)	C.B. 76	250	0	0						
Nov. 2	To Cash (E. Bell & Co.)	C.B. 91	200	0	0						

NOTE.—Each month the total is posted as shown and, allowing for the bills paid at due date during the month, the balance is inserted and carried down ready for the next month's total to be added: hence this account is ruled off each month although [illegible].

68.—**Cheques.** A cheque is legally defined as a bill of exchange drawn on a banker payable on demand, and most of the provisions as to bills on demand apply also to cheques.

When a cheque is drawn the name of the payee must be entered on the credit side of the Cash Book, the amount being placed in the "Bank" column. Any discount allowed by the payee is entered on the same line in the "Discount" column. These entries are then posted to the debit of the appropriate account in the Ledger.

Cheques received are entered in the Cash Book on the debit side, from which they are posted to the credit of the account concerned. Where they are paid into Bank on the day of receipt the entry is made in the Bank column of the Cash Book, but where this practice is not observed the Cash column should be debited first, and then when the cheques are paid into Bank the Cash Account is credited and Bank debited. In practice, the first method should always be adopted.

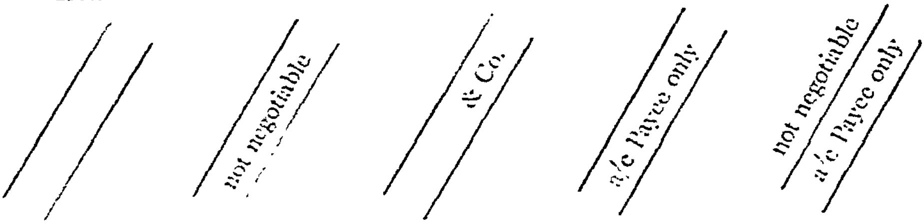
69.—**Negotiated Cheques.** Cheques received may be used *for payment of accounts by negotiating them to a creditor,* instead of their being paid into the Bank, but such a procedure is very rarely followed. When a cheque is so dealt with, however, it is entered in the Cash Book in the "Cash" *column on the debit side, and again on the credit side, also* in the "Cash" column, specifying the name of the transferee, whose account is debited as in the case of a cheque drawn. If the cheque is payable "to bearer" no indorsement of it is necessary; but if payable "to order" *it must be indorsed* and signed before being sent to the transferee. A cheque which has been restrictively indorsed, or crossed in a manner to make it no longer negotiable, cannot, as a rule, be used in this way.

70.—**Crossed Cheques.** An uncrossed cheque can be cashed over the counter at the Bank, but a crossed one will not be paid to any one but a banker, i.e. through an account with the Bank.

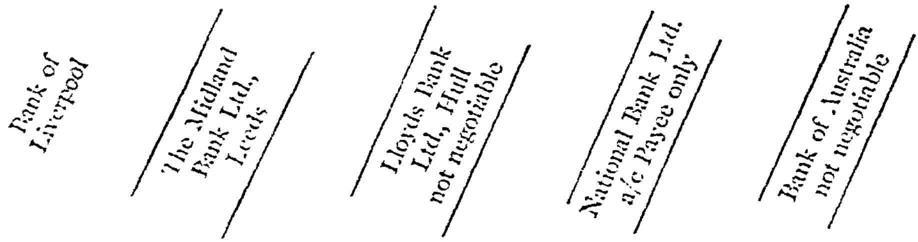
Crossing may be done in various ways, but for a **general crossing** the necessary feature is the drawing across the cheque of two parallel lines, whether or not the words "& Co.," "Not negotiable," or "Account payee only" are added.

A cheque is **crossed specially** if the name of a Bank is written across the cheque, with *or without* the parallel lines, and with or without the words mentioned in the previous paragraph.

EXAMPLES: *General Crossings* :—



Special Crossings :—



The crossing is a material part of a cheque and cannot be removed or altered except that

(1) A *general* crossing may be altered to a special one, by a holder;
(2) "Not negotiable" may be added to *any* crossing;
(3) Either crossing may be crossed again by a banker specially to himself, or to another banker, for the purpose of collection only.

A special crossing can never be altered to a general crossing, and any alteration, except as above, makes a cheque void, unless initialled by the drawer himself.

Money orders and postal orders can be crossed, although they are not negotiable instruments, and any such crossing necessitates their being paid through a Bank.

71.—**Indorsements** are not necessary on bearer cheques, but they are essential on all order cheques.

An indorsement should be written on the back, exactly as the name appears on the face of the cheque, even if misspelt, adding, if desired, the proper signature.

EXAMPLES :—

Payee.	*Indorsement.*
J. Bull.	John Bull *or* J. Bull.
— Roberts, Esq.	T. Roberts (surname only is insufficient).
Mrs. Roberts.	Ethel Roberts or E. Roberts.

Payee.	*Indorsement.*
Mrs. John Roberts.	Ethel Roberts wife of John Roberts.
R. Smythe (misspelt for R. Smith).	R. Smythe R. Smith.
Mr. and Mrs. Roberts.	John Roberts } Both sign. Ethel Roberts }
Messrs. Bull & Son.	Bull & Son.
Bull & Co., Ltd.	For Bull & Co., Ltd., Tom Jones, Secretary (or other official authorised).
Self or Selves.	Signature of the drawer(s).
J. Bull (now deceased).	Tom Jones Executor of J. Bull; *or* For Self and co-executors of J. Bull, Tom Jones.
Trustees of J. Bull.	For J. Bull Tom Smith } Trustees. Fred Brown } (All the trustees to sign.)

72.—**Dishonoured Cheques** are those returned unpaid for any reason, such as for: irregular indorsement; irregularly drawn, e.g. words and figures disagree; indorsement irregular; alteration not initialled; cheque mutilated; post-dated or payment stopped; N/A—no assets; N/E—no effects; R/D—refer to drawer; I.F.—insufficient funds; no account or account closed; stale cheque (i.e. usually one which is, say, more than three months old). Such cheques must be entered in the Bank column of the Cash Book on the credit side to agree with the pass-book, and so that the amount may be posted to the debit of the customer's account as a *contra* to the amount credited when the cheque was received.

73.—**Revocation of Banker's Authority to pay** takes place by countermand of payment, by notice of his customer's death, insanity, or bankruptcy, and on receipt of a garnishee order, which ties up the whole account until the order is discharged.

POST-DATED CHEQUES BOOK

74.—It not infrequently happens that a post-dated cheque (i.e. a cheque bearing a later date than the current date) is received in settlement of an account Payment cannot be obtained until the date of the cheque, and therefore such cheques should

not be entered in the Cash Book until due date. Where many such cheques are received a Post-Dated Cheques Book is desirable, a suitable ruling of which is as follows:—

Date.	From Whom Received.		Due Date.	Ledger Folio.	Discount.			Amount.			Remarks.
1924					£	s.	d.	£	s.	d.	
July 7	Wilson Bros.	Leeds	Aug. 1 1924	S.L. 97	1	5	0	48	15	0	
.. 21	Dunlop & Co.	Sheffield	July 29 1924	S.L. 62		14	6	28	5	6	Banked 29/7/24
.. 30	A. Black	Luton	Aug. 31 1924	S.L. 25				102	10	0	
			Total for	Month	£1	19	6	£179	10	6	
					I.L. 07			I.L. 88			

As in the case of Bills Receivable, each item is posted to the credit of the customer's personal account in the Sales Ledger; the total of the "Discount" column is debited in the Discounts Account, and the total of the "Amount" column is debited each month to the Post-Dated Cheques Account in the Impersonal Ledger. As the cheques fall due they are entered in the "Bank" column on the debit side of the Cash Book, and from there credited to the Post-Dated Cheques Account, in exactly the same way as the Bills Receivable entries are treated. By recording the date cheques are banked, in the "Remarks" column, the risk of overlooking the paying-in of cheques at the proper date is reduced.

Where post-dated cheques are not numerous they may be entered in the Cash Book "short" of the money columns, and on due date re-entered, extending the amount into the "Bank" column of the Cash Book. Where this procedure is adopted there is no need for a Post-Dated Cheques Account in the Impersonal Ledger, and the debtors' accounts are credited direct from the Cash Book in the ordinary way.

75.—**Stamp Duty.** Cheques are defined by the Bills of Exchange Act as bills drawn on a banker payable on demand, and they must bear a twopenny stamp. Doubts have been expressed as to the validity of a post-dated cheque for an amount exceeding £10, owing to the stamp on it being only twopence. The mere fact that a cheque is post-dated does not invalidate it, for Section 13 of the Bills of Exchange Act authorises a bill or cheque to be ante-dated,

post-dated, or dated on a Sunday, but it is argued by some that a post-dated cheque for an amount over £10 should bear an *ad valorem* stamp. It should be noted, however, that a bill or cheque cannot legally be stamped after execution, i.e. after being signed, without liability to a penalty of £10, except that the twopence duty on a cheque may be affixed *by a banker only*, and the appropriate British bill stamp may be affixed to a bill or cheque which has been *drawn* abroad when it arrives in this country.

Owing to the fact that no cause for action can arise on a post-dated cheque until the stated date arrives, and as the cheque would then be properly stamped, the legal difficulty as to stamp duty does not seem to arise.

THE JOURNAL PROPER

76.—The use of the Journal, as the sole subsidiary book in which practically every transaction was entered for posting to the Ledger, has been described in a previous chapter. In this country that method of using the Journal has practically disappeared, although on the Continent the system is compulsory, and there the Journal is recognised in the Courts as the most important account book.

The Journal proper is retained, however, in modern accounting, but only for such entries as are not suitable or convenient for any other subsidiary book of prime entry, for the unique value of the Journal is that it can be used for recording any transaction whatever, however complicated or unusual.

The present use of the Journal is for recording the following classes of entries :—

(1) Those necessary for opening up a set of books at the commencement of a new business

(2) Adjustments and corrections of figures appearing in the Ledgers.

(3) Transfers of items from one Ledger Account to another, or between Ledger and Ledger.

(4) Transfers of the Balances of nominal accounts to the Trading and Profit and Loss Accounts, and other similar items which fall under the general description of "Closing Entries," and which are made at the end of each financial year or accounting period.

(5) Any items which cannot be conveniently entered in the other books of prime entry.

It should be noticed that all the above entries could be made directly in the Ledger concerned, without the use of the Journal : in fact, in many businesses to-day this special use of the Journal

is ignored, but nevertheless it has important advantages which make it a desirable adjunct to any set of account books. Thus, the mixed class of entries which transfers and adjustments involve are not easily referred to, or traced in the Ledger once they have been made, whereas by passing them through the Journal they are preserved in compact form, and in the order of date in which they occurred, this being information which is valuable in many unexpected ways. Examination candidates must always use the Journal for the purposes specified above, unless time does not permit.

The appended example will show the method of making entries, and two points should be noticed. Firstly, a brief "narration" should always be given for every entry in this special Journal, so that its purport may be readily understood at a subsequent date. Secondly, where a transaction involves several credit entries counterbalancing a single entry or several on the debit side, or *vice versa*, such entries are preceded by the word "Sundries," as shown in the specimen Journal entries of the following items.

ITEMS TO BE JOURNALISED

(The nature of the items, and the procedure for arriving at them are dealt with in the next chapter.)

1924.

July 1. M. Queen commenced business with the following Assets: Cash £900; Stock-in-trade £525; Debtors' Accounts, F. Moss £25; H. Wells £30; Bills Receivable £100. (In all £1580.)

And took over Liabilities: Accounts owing—S. Dawson £200; A. Dare £26: Bills Payable £134. (In all £360.)

[NOTE.—The difference between the Assets and Liabilities above is M. Queen's Capital, viz. £1220.]

July 7. H. Wells' Account proves to be a bad debt and £30 is to be written off.

[NOTE.—Bad Debts Account must be debited with this loss and H. Wells' Account must be credited, thus balancing his account.]

Dec. 31. The following balances of Nominal Accounts to be transferred:—

(i) *to the "Trading Account"*: Purchases Account £225 (Dr. balance); Sales Account £650 (Cr. balance). Also Opening Stock £525 (Dr.) and Closing Stock £550 (Cr.).

(ii) *to the "Profit and Loss Account"*: (*a*) *Credit balances*—Discounts £40; the balance of the Trading Account £450, representing Gross Profit. (*b*) *Debit balances*—Salaries £150; Expenses Account £50; Bad Debts Account £30.

Dec. 31. Transfer the amount of Net Profit £260, as shown by the Profit and Loss Account, to the Capital Account [i.e. debit Profit and Loss Account, credit Capital].

JOURNAL

			£	s.	d.	£	s.	d.
1924 May	18	Sundries.						
		To Sundries :—						
		Cash	900	0	0			
		Stock Account . . .	525	0	0			
		F. Moss	25	0	0			
		H. Wells	30	0	0			
		Bills Receivable . . .	100	0	0			
		S. Dawson . . .				200	0	0
		A. Dare . . .				26	0	0
		Bills Payable . .				134	0	0
		Capital Account . .				1220	0	0
		For Assets, Liabilities, and Capital on starting business.						
July	7	Bad Debts Account . .	30	0	0			
		To H. Wells . . .				30	0	0
		For amount written off being irrecoverable.						
Dec.	31	Trading Account . . .	750	0	0			
		To Sundries :—						
		Purchases Account .				225	0	0
		Opening Stock 18th May .				525	0	0
		For balances transferred.						
"	"	Sundries.						
		To Trading Account . .				1200	0	0
		Sales Account . .	650	0	0			
		Closing Stock 31st Dec 1924	550	0	0			
		For balances transferred.						
"		Profit and Loss Account . .	230	0	0			
		To Sundries -						
		Salaries . .				150	0	0
		Expenses . .				50	0	0
		Bad Debts .				30	0	0
		For balances transferred.						
"	"	Sundries.						
		To Profit and Loss Account				490	0	0
		Trading Account . .	450	0	0			
		Discounts Account . .	40	0	0			
		For Gross Profit and Discounts transferred.						
"	"	Profit and Loss Account . .	260	0	0			
		To Capital Account . .				260	0	0
		For Net Profit for period ending 31st Dec. 1924 transferred to Capital Account.						
			£4540	0	0	£4540	0	0

The use of the Journal proper is of particular importance when the Ledgers are kept on the "self-balancing" system to be explained later.

The chief features of the most usual books used in double entry book-keeping have now been described, and in the next chapter the method of arriving at the results of all the transactions recorded in the subsidiary books and ledgers will be dealt with.

Chapter VII

THE FINAL ACCOUNTS.

77.—The transactions which take place day by day are entered with regularity in the appropriate subsidiary books as already described, and from these are posted into the ledger accounts concerned. By this procedure a full and classified account of all the transactions is recorded, whereby the trader can ascertain how much each of his customers owe him, and the amount he owes to each of his creditors; in addition a record of his various expenses, losses, and gains is also made available for his information.

The preceding chapters explained how these classified accounts are built up, and the present chapter describes how the trader may learn the combined result of all the transactions in relation to his own financial position, and see whether he has added to his capital or not, and whether he has made a profit or a loss on his trading. Such information as this could be supplied at any time, but as a rule it is only required at fixed intervals; sometimes *monthly or quarterly, but more usually every six or twelve months*, as in large concerns the labour involved is very considerable.

In order to learn the result of carrying on a business during any selected period Trading and Profit and Loss Accounts are prepared, and these are known as the *Final Accounts*. The financial position of the business at the end of that period is shown in a summarised statement called the *Balance Sheet*.

78.—**Stocktaking and Balancing the Books.** On the last day of the selected period the actual value of the remaining stock-in-trade must be ascertained carefully. This will be done by the management as a rule, the resulting value being given to the accountant or book-keeper to be brought into the accounts.

One important point may, however, be mentioned here. The stock should be valued at cost, or at present market values, *whichever is the lower*, the reason being that it is not sound finance to anticipate profits, e.g. when market prices are higher than cost prices, whereas probable losses should be reserved against.

Having made sure that every item has been entered in the subsidiary books and posted to the Ledger, the first thing for the book-keeper to do is to extract a Trial Balance in order to verify

the arithmetical accuracy of the accounts. If the Trial Balance agrees, the compilation of the Trading Account (which reveals the *gross* profit or gross loss) and of the Profit and Loss Account (which shows the *net* profit or net loss) may be proceeded with.

79.—**"Closing" the Books.** At the end of the selected accounting period, usually the end of the financial year, the Accounts are "closed," which simply means that all items to be taken into consideration have been duly entered, and the accounts which concern the Trading and Profit and Loss Accounts are closed by transferring the balance of each to the latter accounts. After these transfers have been made the Balance Sheet can be prepared.

These matters will now be dealt with in order.

80.—**The Trial Balance.** The balance of each account is entered in the Trial Balance, the debit or credit balances in the Ledger appearing in the same position in the Trial Balance. The advantage of using balances only for the Trial Balance, instead of the totals of the debits and credits of each account, is that the relative position of the accounts is more readily seen, and the figures are more easily dealt with when preparing the "Closing Entries" and Balance Sheet.

Where accounts have been ruled off and show no balance, the name of those accounts need not be included in the Trial Balance.

In addition to the balances of the ordinary Ledger Accounts it will be found that the balance of cash in the office and at the Bank, as shown by the Cash Book, must be included to secure an agreed Trial Balance, thus emphasising the fact that in reality the Cash Book is but a separately bound Ledger Account.

Unless special adjustments have been provided for, to make the Ledgers "self-balancing" (to be described later), it will be noticed that *all* the accounts must be included in a single Trial Balance, irrespective of which Ledger they appear in, thus demonstrating the complete inter-relationship of all the accounts and the completeness of the double entry system for providing a valuable check on the arithmetical accuracy of the books as a whole.

It will be useful here to demonstrate the procedure of extracting the Trial Balance of a set of accounts as presented below:—

Illustration. The accounts of J. Bull.

(*a*) For convenience it has been assumed that the books have not been closed since 31st December 1923, and that all the transactions between then and 1st December 1924 are shown as totals brought down in the form of balances on that date.

CASH BOOK

(The headings are not usually inserted)

Dr.

Date		Receipts		Discounts allowed	Cash	Bank
				£ s. d.	£ s. d.	£ s. d.
1924 Dec.	1	To Balances			59 2 0	1007 8 5
"	10	" A. Dare (on Account)	S.L. 22	1 17 0		35 3 0
"	15	To Bill Receivable (M. Queen & Co.)	66			225 10 6
"	20	To Bank to Cash			150 0 0	
"	23	" Wilson & Co.	S.L. 3	21 5 0		525 15 0
"	24	" M. Queen & Co.	S.L. 9	15 12 0		600 7 6
"	28	" H. Wells & Son, Final Dividend 5 in the £	S.L. 11			25 0 0
"	30	To A. Dare	S.L. 22	5 6 0		207 13 6
				£44 1 0	£209 2 6	£3395 17 11
				(L.L. 65)		
1925 Jan.	1	To Balances	—	—	£50 3 6	£2490 10 8

Cr.

Date		Payments		Discount Received	Cash	Bank
				£ s. d.	£ s. d.	£ s. d.
1924 Dec.	3	By J. Black	B.L. 2			25 2 6
"	"	" Wages	L.L. 4		15 0 0	
"	5	" Cartage on Materials	L.L. 8		9 2 6	
"	"	" Bell & Co.	B.L. 11		2 11 6	
"	6	" Office Stationery	L.L. 17		10 0 0	
"	8	" Travelling Expenses	L.L. 22		5 5 0	
"	10	" Wages	L.L. 4		13 0 0	
"	12	" F. Moss & Sons	B.L. 4	1 4 0		22 16 0
"	17	" Wages	L.L. 4		12 0 0	
"	20	" J. Ball (Drawing a/c)	P.L. 12		25 0 0	
"	"	" Bank to Cash	C.			150 0 0
"	24	" Wages	L.L. 4		15 0 0	
"	"	" Postage	L.L. 17		5 0 0	
"	"	" Bell & Co.	B.L. 11	12 10 0		237 10 0
"	"	" Bill Payable (F. Moss & Sons)	L.L. 68			32 0 0
		By Fire Insurance	L.L. 31			17 10 0
"	28	" Travelling Expenses	L.L. 17		2 10 6	
"	29	" A. Factor & Co.	B.L. 16	30 16 9		555 18 3
"	31	" Salaries	L.L. 6			25 7 0
"	"	" Carriage	L.L. 61		10 9 6	
"	"	" Bank Charges	L.L. 81			12 2 6
"	"	" Balances	—		50 3 6	2490 10 8
				£44 10 9	£216 2 6	£3395 17 11
				(L.L. 65)		

(*b*) The totals of the subsidiary books for the month of December were :—

	£	s.	d.
Bills Payable Book	190	0	0
Bills Receivable Book	850	9	6
Returns Outwards Book	22	19	0
Sales Book	1700	0	0
Returns Inwards Book	25	10	6
Purchases Book	434	3	0
Post-Dated Cheques Book	50	10	6

The postings of these totals are shown in the proper accounts; the individual items in each of the above books are assumed to have been already posted.

(*c*) The Cash Book entries for December were as stated on the previous page; the postings of these are shown in the accounts concerned.

PRIVATE LEDGER

J. BULL, CAPITAL ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
							1924 Dec.	1	By Balance brought forward . .	—	6,000	15	6

J. BULL, DRAWING ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance . .	—	100	15	6							
,,	20	,, Cash . .	C.B. 99	25	0	0							

FREEHOLD PREMISES, 110 Lion Street, E.C.

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance brought forward. .	—	900	0	0							

STOCK ACCOUNT

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
1924 Jan.	1	To Balance (Stock 31/12/23)	J. 2	1,920	5	0							

IMPERSONAL LEDGER

FURNITURE AND FITTINGS

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance		180	10	6							

BILLS PAYABLE

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	24	To Cash (F. Moss & Sons)	C.P. 99	32	0	0	1924 Dec.	1	By Balance		252	2	2
							,,	31	,, Sundries as per Bills Payable Book	P.P. 22	190	0	0

BILLS RECEIVABLE

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance	-	575	0	0	1924 Dec.	18	By Cash (M. Queen & Co.)	C.P. 99	225	10	6
,,	31	,, Sundries as per Bills Receivable Book	P.R. 39	850	9	6							

Impersonal Ledger (*contd.*).

POST-DATED CHEQUES

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	31	To Sundries as per P.D. Cheques Book	P.D.B. 20	50	10	6							

PURCHASES ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance .	—	914	13	6							
„	31	„ Sundries as per Purchases Book	P.B. 74	434	3	0							

RETURNS OUTWARDS

Dr. *Cr.*

											£	s.	d.
							1924 Dec.	1	By Balance .	—	97	9	9
							„	31	„ Sundry Returns .	R.O. 24	22	19	0

SALES ACCOUNT

Dr. *Cr.*

											£	s.	d.
							1924 Dec.	1	By Balance .	—	3,361	1	9
							„	31	„ Sundries as per Sales Book .	S.B. 72	1,700	0	0

RETURNS INWARDS

Dr. *Cr.*

				£	s.	d.							
1924 Dec.	1	To Balance .	—	30	10	9							
„	31	„ Sundries as per Returns Inwards Book	R.I. 20	25	10	6							

MANUFACTURING WAGES

Dr. | *Cr.*

1924				£	s.	d.							
Dec.	1	To Balance .	—	402	10	6							
"	3	" Cash .	C.B. 99	15	0	0							
"	10	" " .	C.B. 99	14	0	0							
"	17	" " .	C.B. 99	12	0	0							
"	24	" " .	C.B. 99	15	0	0							

SALARIES

Dr. | *Cr.*

1924				£	s.	d.							
Dec.	1	To Balance .	—	300	9	6							
"	31	" Cash	C.B. 99	25	7	6							

DISCOUNTS

Dr. | *Cr.*

1924				£	s.	d.	1924				£	s.	d.
Dec.	31	To Sundries as per Cash Book .	C.B. 99	44	1	0	Dec.	1	By Balance	—	41	18	6
							"	31	By Sundries as per Cash Book .	C.B. 99	44	10	9

CARRIAGE (INWARDS)

Dr. | *Cr.*

1924				£	s.	d.							
Dec.	1	To Balance	—	33	3	3							
"	5	" Cash	C.B. 99	9	2	6							

CARRIAGE (OUTWARDS)

Dr. | *Cr.*

1924				£	s.	d.							
Dec.	31	To Cash	C.B. 99	10	9	6							

Impersonal Ledger (*contd.*).

GENERAL EXPENSES

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance .	—	125	10	0							
"	6	" Cash (Staty.) .	—	10	0	0							
"	24	" Cash (Postage)	—	5	0	0							

BAD DEBTS ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	28	To H. Wells & Son .	L. 21	75	0	0							

BANK CHARGES

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	31	To Cash .	C.B. 99	12	2	6							

INSURANCES

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	24	To Cash .	C.B. 99	17	10	6							

TRAVELLING EXPENSES

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	8	To Cash .	C.B. 99	5	5	0							
"	28	" " .	C.B. 99	2	10	6							

REPAIRS ACCOUNT

Dr.				£	s.	d.					£	s.	d. Cr.
1924 Dec.	1	To Balance	—	100	0	0							

SALES LEDGER

M. QUEEN & CO., 19 Fernworthy Road, Devonport

Dr.				£	s.	d.					£	s.	d. Cr.
1924 Dec.	1	To Balance	—	960	12	3	1924 Dec.	12	By Bill Receivable, due 15/1/25	B.R. 39	125	0	0
,,	15	,, Goods	S.B. 70	700	0	0	,,	16	By Returns	R.I. 20	25	10	6
							,,	24	,, Cash	C.B. 99	609	7	6
							,,	,,	,, Discount	C.B. 99	15	12	6

H. WELLS & SON, 2 Moor Lane, W.C.

Dr.				£	s.	d.					£	s.	d. Cr.
1924 Dec.	1	To Balance	—	100	0	0	1924 Dec.	28	By Cash, Final Dividend 5s. in the £	C.B. 99	25	0	0
							,,	,,	By Transfer to Bad Debts a/c	J 21	75	0	0
				£100	0	0					£100	0	0

F

Sales Ledger (*contd.*):—

A. DARE, 175 Great Oxford Street, E.C.

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance .	—	250	0	0	1924 Dec.	10	By Cash and Discount on Account .	C.B. 99	37	0	0
							"	30	By Cash .	C.B. 99	207	13	6
							"	"	" Discount .	C.B. 99	5	6	6
				£250	0	0					£250	0	0
1924 Dec.	23	To Goods .	S.B. 71	£850	0	0	1924 Dec.	11	By Post-Dated Cheque due 11/1/1925 .	—	£50	10	6

WILSON & CO., King Street, Slough

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance .	—	850	0	0	1924 Dec.	23	By Cash .	C.B. 99	828	15	0
							"	"	" Discount .	C.B. 99	21	5	0
				£850	0	0					£850	0	0

SMITH BROTHERS, Shrewsbury

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance .	—	725	9	6	1924 Dec.	21	By Bill Receivable due 24/3/1925 .	B.R. 39	£725	9	6
"	30	To Goods .	S.B. 72	£150	0	0							

F. HOWARD, High Street, Liverpool

Dr.				£	s.	d.					£	s.	d. *Cr.*
1924 Dec.	1	To Balance .	—	475	0	0							

BOUGHT LEDGER

A. FACTOR & CO., City Road, W.C.

Dr.				£	s.	d.					£	s.	d. *Cr.*
1924 Dec.	29	To Cash .	C.B. 99	585	18	3	1924 Dec.	1	By Balance .	—	590	0	6
"	"	" Discount .	C.B. 99	30	16	9	"	3	" Goods .	P.B. 70	26	14	6
				£616	15	0					£616	15	0
							1924 Dec.	20	By Goods .	P.B. 71	£207	8	6

J. BLACK, Moorgate, E.C.

Dr.				£	s.	d.					£	s.	d. *Cr*
1924 Dec.	3	To Cash .	C.B. 99	25	2	6	1924 Dec.	1	By Balance .	—	25	2	6

F. MOSS & SONS, 16 Central Road, E.C.

Dr.				£	s.	d					£	s	d *Cr.*
1924 Dec.	12	To Cash .	C.B. 99	22	16	0	1924 Dec.	1	By Balance	—	24	0	0
"	"	" Discount .	C.B. 99	1	4	0							
				£24	0	0					£24	0	0
1924 Dec.	23	To Bill Payable due 26/1/1925 .	B.P. 22	£190	0	0	1924 Dec.	29	By Goods	P.B. 72	£200	0	0

Sales Ledger (*contd.*) :—

A. DARE, 175 Great Oxford Street, E.C.

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance .	—	250	0	0	1924 Dec.	10	By Cash and Discount on Account .	C.B. 99	37	0	0
							,,	30	By Cash .	C.B. 99	207	13	6
							,,	,,	,, Discount .	C.B. 99	5	6	6
				£250	0	0					£250	0	0
1924 Dec.	23	To Goods .	S.B. 71	£850	0	0	1924 Dec.	11	By Post-Dated Cheque due 11/1/1925 .	—	£50	10	6

WILSON & CO., King Street, Slough

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance .	-	850	0	0	1924 Dec.	23	By Cash .	C.B. 99	828	15	0
							,,	,,	,, Discount .	C.B. 99	21	5	0
				£850	0	0					£850	0	0

SMITH BROTHERS, Shrewsbury

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance .	—	725	9	6	1924 Dec.	21	By Bill Receivable due 24/3/1925 .	B.R. 39	£725	9	6
,,	30	To Goods .	S.B. 72	£150	0	0							

F. HOWARD, High Street, Liverpool

Dr.													*Cr.*
1924				£	s.	d.							
Dec.	1	To Balance .	—	475	0	0							

BOUGHT LEDGER

A. FACTOR & CO., City Road, W.C.

Dr.													*Cr.*
1924				£	s.	d.	1924				£	s.	d.
Dec.	29	To Cash .	C.B. 99	585	18	3	Dec.	1	By Balance .	—	590	0	6
"	"	" Discount .	C.B. 99	30	16	9	"	3	" Goods .	P.P. 70	26	14	6
				£616	15	0					£616	15	0
							1924						
							Dec.	20	By Goods .	P.P. 71	£207	8	6

J. BLACK, Moorgate, E.C.

Dr.													*Cr.*
1924				£	s.	d.	1924				£	s.	d.
Dec.	3	To Cash .	C.B. 99	25	2	6	Dec.	1	By Balance	—	25	2	6

F. MOSS & SONS, 16 Central Road, E.C.

Dr.													*Cr.*
1924				£	s.	d.	1924				£	s.	d.
Dec.	12	To Cash .	C.B. 99	22	16	0	Dec.	1	By Balance .	—	24	0	0
"	"	" Discount .	C.B. 99	1	4	0							
				£24	0	0					£24	0	0
1924							1924						
Dec.	23	To Bill Payable due 26/1/1925 .	B.P. 22	£190	0	0	Dec.	29	By Goods .	P.P. 72	£200	0	0

Bought Ledger (*contd.*):—

BELL & CO., Manchester

Dr.							*Cr.*							
1924			R.O.	£	s.	d.	1924					£	s.	d.
Dec.	3	To Returns .	24	22	19	0	Dec.	1	By Balance	—		275	10	6
,,	5	,, Cash .	C.B. 99	2	11	6								
,,	24	,, Cash .	C.B. 99	237	10	0								
,,	,,	,, Discount .	C.B. 99	12	10	0								
				£275	10	6						£275	10	6

Making a Trial Balance of the above accounts in the Ledgers, and using only the balance of each account, the accuracy of the figures posted is established as shown opposite. It is customary in practice, before extracting the Trial Balance, to total each account and show the deduction of one side from the other in *small* figures in the date column on the greater side of each account; the balance is thus more readily extracted. It is usual to write these figures in red or green ink, in order that they may be more readily distinguished.

[NOTE.—In examination exercises the various Ledger Accounts are not usually grouped as shown above and in the Trial Balance opposite; they are presented as if all the accounts appeared in one combined Ledger. This is, of course, quite immaterial. The present example is dealt with in the manner usually followed in actual practice, except that it is customary to extract the balances of all the accounts in each of the Ledgers into separate lists, the totals only of which are then shown in the Trial Balance, instead of burdening the latter with the numerous detailed balances of each Ledger.]

TRIAL BALANCE, *31st December 1924*

(The Accounts are entered in the order in which they appear in the Ledgers. The folio of each should be shown, although omitted below.)

Ledger	*Account.*	*Dr.* £	s	d.	*Cr.* £	s	d
Private Ledger.							
	J. Bull, Capital Account .				6,000	15	6
	J. Bull, Drawing Account	125	15	6			
	Freehold Premises . .	900	0	0			
	Stock Account . .	1,920	5	0			
Impersonal Ledger							
	Furniture and Fittings .	180	10	6			
	Bills Payable . . .				410	2	2
	Bills Receivable . .	1,199	10	0			
	Post-Dated Cheques	50	10	6			
	Purchases . .	1,348	16	6			
	Returns Outwards . .				120	8	9
	Sales Account				5,061	1	9
	Returns Inwards	56	1	3			
	Manufacturing Wages .	458	10	0			
	Salaries . .	325	17	0			
	Discounts .				42	8	3
	Cartage (Inwards)	42	5	9			
	Carriage (Outwards)	10	9	6			
	General Expenses . .	140	10	0			
	Bad Debts Account	75	0	0			
	Bank Charges . .	12	2	0			
	Insurances . .	17	10	0			
	Travelling Expenses	7	15	6			
	Repairs . .	100	0	0			
Sales Ledger.							
	M. Queen & Co	885	1	9			
	A. Dare	799	9	6			
	Smith Bros .	150	0	0			
	F. Howard	475	0	0			
Bought Ledger							
	A. Factor & Co. .				207	8	6
	F. Moss & Sons				10	0	0
Cash Book.							
	Cash at Office	80	3	6			
	Cash at Bank	2,490	1[illegible]	8			
		£11,852	4	11	£11,852	4	11

Having thus verified the arithmetical accuracy of the records, the book-keeper can proceed to construct the Trading Account,

Bought Ledger (*contd.*):—

BELL & CO., Manchester

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	3	To Returns .	R.O. 24	22	19	0	1924 Dec.	1	By Balance .	—	275	10	6
"	5	" Cash .	C.B. 99	2	11	6							
"	24	" Cash .	C.B. 99	237	10	0							
"	"	" Discount .	C.B. 99	12	10	0							
				£275	10	6					£275	10	6

Making a Trial Balance of the above accounts in the Ledgers, and using only the balance of each account, the accuracy of the figures posted is established as shown opposite. It is customary in practice, before extracting the Trial Balance, to total each account and show the deduction of one side from the other in *small* figures in the date column on the greater side of each account; the balance is thus more readily extracted. It is usual to write these figures in red or green ink, in order that they may be more readily distinguished.

[NOTE.—In examination exercises the various Ledger Accounts are not usually grouped as shown above and in the Trial Balance opposite; they are presented as if all the accounts appeared in one combined Ledger. This is, of course, quite immaterial. The present example is dealt with in the manner usually followed in actual practice, except that it is customary to extract the balances of all the accounts in each of the Ledgers into separate lists, the totals only of which are shown in the Trial Balance, instead of burdening the latter with the numerous detailed balances of each Ledger.]

(2) The balance of an account may be *incorrectly copied into* the Trial Balance, i.e. in amount, or on the wrong side.

(3) An item debited in one account and the corresponding credit entry having been inadvertently posted to the debit instead of the credit of the second account or *vice versa*. In such mistakes the difference shown by the Trial Balance will be *double* the amount of the wrongly posted item; hence it often pays to look for an item of half the amount of a difference.

(4) An item may be wrongly posted to the Ledger from a subsidiary book, e.g. a debit of £20, 1s. 8d. posted as £21, 8s., making an excess of debits of £1, 6s. 4d. A credit so posted would cause a difference of £1, 6s. 4d. short on the debit side, or, in other words, an excess on the credit side.

(5) A wrong addition in a Ledger Account or subsidiary book, or a mistake in the subtraction of one side of an account from the other.

(6) An item or items not posted at all owing to having been overlooked. Omissions of this kind and also incorrectly posted figures are usually traced by "calling back" the postings.

83.—**The Trading Account.** The next step is the preparation of the Trading Account, which reveals the gross results of trading for the period under review. In other words, except in the unusual occurrence of gross trading receipts plus the stock in hand at the end of the period equalling the gross trading expenditure plus the stock in hand at the beginning of the period, the Trading Account shows the amount of *Gross Profit or Gross Loss*. The Trading Account does not include gains and expenses connected with general management, nor any expenses except those affecting the direct cost of the goods dealt in.

The principle underlying the Trading Account may be illustrated in this way:—

	£	s	d
Assume the commencing stock to be	1020	5	0
Add value at cost of goods purchased during the period (allowing for returns)	1228	7	9
	3148	12	9
Deduct actual stock left on hand at the end of the trading period (say)	1528	2	9
Then the cost value of stock disposed of is the difference, i.e. .	1620	10	0
Assuming the total sales (less returns) to be	5005	0	6
There is a Gross Profit of	£3384	10	6

and Profit and Loss Account. It is advisable to notice here, however, that the agreement of the Trial Balance is not proof of complete accuracy in the Ledgers, because there are classes of error which it does not reveal, as follows:—

81.—**Errors not revealed by the Trial Balance.**

(1) There may be "Compensating errors"—e.g. £15 posted as £50 on the debit side of an account would not be revealed if, say, two other accounts showed a corresponding excess credit amounting to the difference, £35; as, for instance, £20, 8s. posted as £28 in one, and £52, 18s. posted instead of £25, 10s. in another. The errors "compensate" or balance each other.

(2) Omission of either a debit or credit entry might be balanced by the effect of other figures omitted or posted wrongly, in the same Ledger or another book.

(3) Amounts may be posted to the wrong account, or in the same transaction the amounts may be posted to the wrong sides of the two accounts concerned, and such errors would not interfere with the total balances of the Ledgers.

(4) An error in a subsidiary book, e.g. £10 short cast in the Sales Book, may be set off by an error in another subsidiary book, e.g. £10 short in addition of the Purchases Book, or £10 overcast on another page of the same Sales Book.

(5) Transactions omitted entirely, i.e. from subsidiary books and ledger accounts.

In none of these cases would the Trial Balance reveal any error, but if the Trial Balance shows no difference it is usually assumed that the books are accurate and the closing transfers can be proceeded with.

82.—**The Discovery of Errors when the Trial Balance does not agree.** Unless there is an error in the accounts the Trial Balance *must* show an exact balance of debits and credits, and the book-keeper should not proceed further until agreement has been secured by the discovery and correction of any error. A difference of a few pence may be the result of serious unrevealed mistakes of large amounts.

In case of a difference, the following are some of the sources of error which should be investigated when searching for mistakes:—

(1) The omission of the balance of an account, more particularly the balances from the Cash Book.

(2) The balance of an account may be incorrectly copied into the Trial Balance, i.e. in amount, or on the wrong side.

(3) An item debited in one account and the corresponding credit entry having been inadvertently posted to the debit instead of the credit of the second account or *vice versa*. In such mistakes the difference shown by the Trial Balance will be *double* the amount of the wrongly posted item; hence it often pays to look for an item of half the amount of a difference.

(4) An item may be wrongly posted to the Ledger from a subsidiary book, e.g. a debit of £20, 1s. 8d. posted as £21, 8s., making an excess of debits of £1, 6s. 4d. A credit so posted would cause a difference of £1, 6s. 4d. short on the debit side, or, in other words, an excess on the credit side.

(5) A wrong addition in a Ledger Account or subsidiary book, or a mistake in the subtraction of one side of an account from the other.

(6) An item or items not posted at all owing to having been overlooked. Omissions of this kind and also incorrectly posted figures are usually traced by "calling back" the postings.

83.—**The Trading Account.** The next step is the preparation of the Trading Account, which reveals the gross results of trading for the period under review. In other words, except in the unusual occurrence of gross trading receipts plus the stock in hand at the end of the period equalling the gross trading expenditure plus the stock in hand at the beginning of the period, the Trading Account shows the amount of Gross Profit or Gross Loss. The Trading Account does not include gains and expenses connected with general management, nor any expenses except those affecting the direct cost of the goods dealt in.

The principle underlying the Trading Account may be illustrated in this way :—

	£	s.	d.
Assume the commencing stock to be	1920	5	0
Add value at cost of goods purchased during the period (allowing for returns)	1228	7	0
	3148	12	0
Deduct actual stock left on hand at the end of the trading period (say)	1528	2	0
Then the cost value of stock disposed of is the difference, i.e. .	1620	10	0
Assuming the total sales (less returns) to be . . .	5005	0	0
There is a Gross Profit of	£3384	10	0

Put into the form of a Ledger Account this statement might be shown thus :—

TRADING ACCOUNT

for the year ended 31st December 1924

Dr.												*Cr.*
1924			£	s.	d.	1924			£	s.	d.
Jan.	1	To Commencing Stock . .	1,920	5	0	Dec.	31	By Sales (less returns) . .	5,005	0	6
Dec.	31	To Goods purchased (less returns) . .	1,228	7	9	,,	,,	By Final Stock .	1,528	2	9
,,	,,	To Gross Profit	3,384	10	6						
			£6,533	3	3				£6,533	3	3

If the total amount of sales be less than the total cost of the stock sold (i.e. less than £1620, 10s.) there would be a gross loss; whilst if these two figures are equal it is obvious there is neither a gross profit nor a gross loss. To show these results in the books the procedure is to bring together into the Trading Account the balances of those accounts which concern directly the cost of the goods, as well as the total net sales and final stock.

It is necessary, therefore, to transfer by means of the Journal :—

(a) *To the debit side of the Trading Account.*

(1) The opening stock at the beginning of the period.

(2) The balance of the Purchases Account and of those accounts which directly add to the cost of the goods, e.g. manufacturing wages, cartage inwards.

(3) The balance of the Returns Inwards. (In practice this is shown as a deduction from the total sales on the credit side—see example on page 92.)

(b) *To the Credit side of the Trading Account.*

(1) The balance of the Sales Account.

(2) The balance of the Returns Outwards. (In practice this is deducted from the Purchases on the debit side.)

(3) The actual value of stock in hand at the end of the trading period. This amount must at the same time be debited to Stock Account to complete the double entry.

Using the Accounts of which the Trial Balance is shown on page 85, and taking the final stock as £1528, 2s. 9d., the closing entries in the Journal would appear thus :—

JOURNAL

				Dr. £	s.	d.	Cr. £	s.	d.
1924 Dec.	31	Trading Account . .	P.L. 91	1,920	5	0			
		To Stock Account .	P.L. 16				1,920	5	0
		For transfer of opening Stock.							
"	"	Trading Account . .	P.L. 91	1,348	16	6			
		To Purchases Account	I.L. 22				1,348	16	6
		For balance transferred.							
"	"	Sales Account . .	I.L. 33	5,061	1	9			
		To Trading Account .	P.L. 91				5,061	1	9
		For balance transferred.							
"	"	Stock Account . .	P.L. 16	1,528	2	9			
		To Trading Account .	P.L. 91				1,528	2	9
		For Closing Stock on 31/12/24 as per Stock List.							
"	"	Trading Account . .	P.L. 91	56	1	3			
		To Returns Inwards .	I.L. 20				56	1	3
		For balance transferred.							
"	"	Returns Outwards Account	I.L. 24	120	8	9			
		To Trading Account .	P.L. 91				120	8	9
		For balance transferred.							
"	"	Trading Account . .	P.L. 91	500	16	3			
		To Sundries :—							
		Manufacturing Wages	I.L. 90				458	10	6
		Cartage . . .	I.L. 91				42	5	9
		For balances transferred.							
				£10,535	12	3	£10,535	12	3

The above entries, when posted, close the Purchases, Sales, and Returns Accounts, but leave on the Stock Account the value of the Closing Stock as a debit balance, where it remains until the next stocktaking; that is, it becomes the commencing stock for the succeeding accounting period. The Ledger Accounts affected by the above entries are shown in the following pages, these entries having been posted :—

LEDGER ACCOUNTS

MANUFACTURING WAGES

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance .	—	402	10	6	1924 Dec.	31	By Transfer to Trading a/c . .	J. 9	458	10	6
„	3	„ Cash .	C.B. 99	15	0	0							
„	10	„ „ .	C.B. 99	14	0	0							
„	17	„ „ .	C.B. 99	12	0	0							
„	24	„ „ .	C.B. 99	15	0	0							
				£458	10	6					£458	10	6

CARTAGE ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance .	—	33	3	3	1924 Dec.	31	By Transfer to Trading a/c . .	J. 9	42	5	9
„	5	„ Cash .	C.B. 99	9	2	6							
				£42	5	9					£42	5	9

PURCHASES ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance .	—	914	13	6	1924 Dec.	31	By Transfer to Trading a/c . .	J. 9	1,348	16	6
„	31	„ Sundries as per Purchases Book	P.B. 74	434	3	0							
				£1,348	16	6					£1,348	16	6

RETURNS OUTWARDS

Dr.				£	s.	d.					£	s.	d. Cr.
1924 Dec.	31	To Transfer to Trading a/c	J. 9	120	8	9	1924 Dec.	1	By Balance	—	97	9	9
							"	31	" Sundries	R.O. 24	22	19	0
				£120	8	9					£120	8	9

SALES ACCOUNT

Dr.				£	s.	d.					£	s.	d. Cr.
1924 Dec.	31	To Transfer to Trading a/c	J. 9	5,061	1	9	1924 Dec.	1	By Balance	—	3,361	1	9
							"	31	" Sundries as per Sales Book	S.B. 72	1,700	0	0
				£5,061	1	9					£5,061	1	9

RETURNS INWARDS

Dr				£	s	d.					£	s.	d. Cr.
1924 Dec.	1	To Balance	—	30	10	9	1924 Dec	31	By Transfer to Trading a/c	J. 9	56	1	3
"	31	" Sundries as per R.I. Book	R.I. 20	25	10	6							
				£56	1	3					£56	1	3

STOCK ACCOUNT

Dr.				£	s	d					£	s	d Cr
1924 Jan.	1	To Balance Stock 31/12/23	J. 2	£1,920	5	0	1924 Dec	31	By Transfer to Trading a/c	J. 9	£1,920	5	0
1925 Jan.	1	To Balance Stock 31/12/24	J. 9	£1,528	2	9							

Ledger Accounts (*contd.*):—

TRADING ACCOUNT

for the year ended 31st December 1924

Dr. | *Cr.*

				£	s.	d.	1924				£	s.	d.
	31	To Stock 1/1/24 .	J. 9	1,920	5	0	Dec.	31	By Sales £5,061 1 9	J. 9			
"	"	" Purchases— £1,348 16 6	J. 9						*Less* Returns Inward 56 1 3	J. 9	5,005	0	6
		Less Returns Outward 120 8 9	J. 9	1,228	7	9	"	"	By Stock as per List	J. 9	1,528	2	9
	"	To Manufacturing Wages . . .	J. 9	458	10	6							
	"	To Cartage . .	J. 9	42	5	9							
	"	" Balance, being Gross Profit transferred to Profit and Loss a/c . .	J. 11	2,883	14	3							
				£6,533	3	3					£6,533	3	3

It should be noticed that Returns Outwards are deducted from the Purchases, which is better than showing them as a credit on the other side of the account, although the latter procedure would give the same result as far as the figure of gross profit is concerned. The same applies to Returns Inwards which are deducted from Sales.

84.—In manufacturing concerns sometimes a **Manufacturing Account** and a Trading Account are drawn up instead of only a Trading Account as above; the object being to find the gross results of manufacturing as distinct from actual trading. For this purpose all the items directly affecting the expense of manufacturing are separated from those appertaining to trading, just as the latter are separated from items which concern only the Profit and Loss Account (see *infra*). This subdivision of the Final Accounts will be dealt with in greater detail later.

85.—**The Gross Profit** arrived at as above represents the amount by which the total sales exceed the total cost of the goods sold; but out of this Gross Profit various expenses, e.g. those connected with management, clerical work, and incidental to effecting sales, have to be paid. Any balance then remaining is

Net Profit, or, if these expenses are greater than the Gross Profit, the adverse balance is a **Net Loss.**

The next step therefore is to find the Net Profit (or Net Loss) by compiling a Profit and Loss Account.

86.—**Profit and Loss Account.** In the first place, the Gross Profit (or Gross Loss) must be transferred to the Profit and Loss Account, and the same must be done with the balance of every account relating to expenses, losses, and gains, excepting those which were dealt with in connection with the Trading Account.

When making these transfers it will be found that (*a*) Expenses and losses appear on the debit side of the Profit and Loss Account; (*b*) Gains appear on the credit side. The transfers should be made by means of Journal entries, as shown for transfers to the Trading Account, and when these have been posted the Profit and Loss Account will appear as shown on the next page.

The balance of *the Profit and Loss Account represents either* a Net Profit or a Net Loss, as the case may be, and in the books of a private trader this figure is transferred by a Journal entry to the Capital Account. In the books of a joint stock company the balance is dealt with differently as will be explained hereafter.

The balance so transferred increases or decreases the proprietor's capital as shown by the Capital Account, and the resulting balance of the latter account, less any sums withdrawn during the year, represents the trader's worth at the date of his new Balance Sheet.

The final entries in the Journal and Private Ledger Accounts are as follows:—

JOURNAL

				£	s.	d.	£	s.	d.
1924 Dec.	31	Trading Account . .	P.L. 91	2,883	14	3			
"		To Profit and Loss Account . . .	P.L. 51				2,883	14	3
		For Gross Profit for the year 1924 transferred.							
"	"	Profit and Loss Account	P.L. 51	2,236	17	6			
		To Capital Account .	P.L. 1				2,236	17	6
		For Net Profit for the year 1924 transferred.							
"	"	Capital Account . . .	P.L. 1	125	15	6			
		To Drawing Account .	P.L. 17				125	15	6
				£5,246	7	3	£5,246	7	3

PROFIT AND LOSS ACCOUNT

for the year ended 31st December 1924

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	31	To Salaries .	J. 11	325	17	0	1924 Dec.	31	By Gross Profit transferred from Trading Account . .	J. 11	2,883	14	3
,,	,,	To General Expenses .	J. 11	140	10	0	,,	,,	By Discounts	J. 11	86	9	3
,,	,,	To Bad Debts	J. 11	75	0	0							
,,	,,	,, Discounts	J. 11	44	1	0							
,,	,,	To Bank Charges .	J. 11	12	2	6							
,,	,,	To Insurances. .	J. 11	17	10	6							
,,	,,	To Travelling Expenses .	J. 11	7	15	6							
,,	,,	To Repairs .	J. 11	100	0	0							
,,	,,	,, Carriage .	J. 11	10	9	6							
,,	,,	To Balance, being Net Profit for the year ending 31st Dec. 1924 transferred to Capital a/c .	J. 1	2,236	17	6							
				£2,970	3	6					£2,970	3	6

J. BULL, DRAWING ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	1	To Balance	—	100	15	6	1924 Dec.	31	By Transfer to Capital a/c . .	J. 11	125	15	6
,,	20	,, Cash .	C.B. 99	25	0	0							
				£125	15	6					£125	15	6

J BULL, CAPITAL ACCOUNT

Dr. *Cr.*

				£	s.	d.					£	s.	d.
1924 Dec.	31	To Drawing a/c	J. 11	125	15	6	1924 Jan.	1	By Balance brought down	—	6,000	15	6
"	"	To Balance carried down	—	8,111	17	6	Dec.	31	By Net Profit for the year 1924	J. 12	2,236	17	6
				£8,237	13	0					£8,237	13	0
							1925 Jan.	1	By Balance brought down	—	£8,111	17	6

Having completed the Final Accounts in the manner just outlined, a complete statement of the trader's financial position may be made in the form of a Balance Sheet.

87.—**Balance Sheet.** This is a summary of the balances of the accounts which remain in the books after the final accounts have been completed, and is a statement of the trader's position on the last day of the period for which the accounts have been completed. The only balances remaining are those representing assets and liabilities, and these are shown in a summarised form as in the case of the specimen on page 96 It will be noted in particular that the balances of creditors' ledger accounts in the Bought Ledger are shown in a total as "Sundry Creditors," and those of debtors' accounts in the Sales Ledger appear in one sum as "Sundry Debtors." The assets are shown on the right-hand side and the liabilities on the left-hand side. It is specially emphasised that a Balance Sheet is *not* an account, but merely a schedule or a statement of ledger balances as on the date specified, hence the usual prefixes "To" and "By" are omitted.

Further, whilst the Trading Account and Profit and Loss Account are headed, for example, "For the year (or other period) ended 31st December 1924," the Balance Sheet must be headed "on (or as at) 31st December 1924," because it does not refer to any *period* but simply states the position on the date named.

The following illustration, based on the accounts just dealt with, is a simple form of Balance Sheet.

J. BULL

BALANCE SHEET

on 31st December 1924

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
Sundry Creditors .	217	8	6	Freehold Premises .	900	0	0
Bills Payable . .	410	2	2	Furniture . .	180	10	6
J. Bull, Capital Account . . .	8,111	17	6	Stock in Trade .	1,528	2	9
				Sundry Debtors .	2,309	11	3
				Post-Dated Cheques	50	10	6
				Bills Receivable .	1,199	19	0
				Cash at Bank .	2,490	10	8
				,, in hand . .	80	3	6
	£8,739	8	2		£8,739	8	2

The further consideration of the Balance Sheet must be deferred until the provisions for reserves and depreciation have been dealt with.

Chapter VIII

THE FINAL ACCOUNTS (*Continued*)

88.—**The Final Accounts** were described in their simplest form in the last chapter, and it is now necessary to consider them in greater detail, together with the treatment of adjustments which generally have to be made.

89.—**The Distinctions between the Final Accounts** may be stated as follows :—

TRADING ACCOUNT	PROFIT AND LOSS ACCOUNT
(*a*) This deals with the purchasing and (if any) the manufacturing expenses, e.g. goods for sale, freight and carriage inwards, productive wages, fuel used in manufacturing, etc. (*b*) It shows the gross profit.	(*a*) Deals with the selling, distributing, administrative, and establishment expenses, e.g. salaries, freight and carriage outwards, trade expenses, rent, rates and taxes of offices and warehouse. (*b*) It shows the net profit.

When manufacturing is treated separately from trading, the following distinction is made :—

TRADING ACCOUNT	MANUFACTURING ACCOUNT
Deals only with the finished goods ready for sale, and to it are debited goods purchased from outside, as well as the value of those manufactured. The latter amount is transferred from the Manufacturing Account.	Includes only the cost of raw materials and expenses directly connected with the process of manufacture. The balance of this account is finally transferred to the Trading Account.

Apart from the ordinary accounts, Cost Accounts are usually *kept in businesses engaged in manufacturing*, and although cost accounting forms a separate subject the following distinction should be noted :—

TRADING ACCOUNT	COST ACCOUNT
Includes all those expenses *which vary directly* with turnover (and manufacture when a separate Manufacturing Account is not kept); together with a few fixed charges on the works, e.g. rent of the *works*. This facilitates comparison of the successive rates of gross profit on turnover. This account thus comprises only *part* of the final cost of the goods.	Includes the whole of the expenses whether they vary with the turnover or not, e.g. not only materials, wages, fuel, etc., but also repairs and renewals of buildings, machinery, and tools, and depreciation of plant, etc. This account, then, comprises the whole of the expenditure.

90.—**Allocation of Expenses.** The appended comparison of some representative items chargeable to the respective final accounts emphasises the distinction in their treatment. If a separate Manufacturing Account is not kept the items shown under that heading must be debited to the Trading Account. There is, however, no hard and fast rule, and the special purpose or circumstances must be considered when allocating expenditure. The following summary shows the normal allocation of the items named; the list is, of course, not exhaustive :—

Items debited to Manufacturing Account	Items debited to Trading Account	Items debited to Profit and Loss Account
Raw material stock at start.	Stock in trade at start.	Wages and salaries of office staff, travellers and management.
Work in progress at start.	Wages of a productive nature which are incurred up to the time the goods are finished for sale, e.g. handling between works and warehouse.	Duty, dock charges, and freight on goods sold.
Wages directly incurred in manufacturing.	Duty, dock charges, and freight on finished goods purchased for sale.	Carriage and cartage on goods outward (sold).
Duty, dock charges, and freights on raw materials inwards.	Carriage and cartage on goods inwards (bought).	Office rent, rates, and taxes.
Cartage on raw materials.	General warehouse expenses.	Office lighting, heating, and other expenses.
Charges and expenses directly concerned with manufacturing.	Warehouse rent, rates, and taxes.	Packing cases and materials used in sending goods sold.
Motive power (gas, oil, electricity, and water) and factory fuel.	Special packing costs before goods are ready for sale.	Discounts allowed.
Royalties.	Cost of goods from the factory and of goods purchased for sale.	Interest paid on overdrafts, bills, etc.
Cost of all raw materials used in manufacture.		All management and establishment expenses.
		Bad debts.

For most exercises, especially in the intermediate examinations, it is not necessary to separate Manufacturing and Trading Account items. They should all be included in the Trading Account unless specially asked for otherwise.

91.—**Percentage Comparison of Profits on Turnover.** The value of the results shown by the Final Accounts just described is enhanced by computing the percentage of profit on turnover,

for by this means the relative results of successive years can be the more readily compared.

92.—By **Turnover** is meant the **total sales** during a given period. It does not mean **Output,** which refers only to the quantity manufactured or produced. Thus it will be seen that percentage profit being calculated on turnover is based on selling not cost price.

93.—**To calculate the percentage of Profit.** The Gross Profit as shown by the Trading Account, multiplied by 100 and divided by Turnover, gives the percentage Gross Profit. Treating the Net Profit as shown by the Profit and Loss Account in the same way the percentage Net Profit is found. In formula form we have:—

$$\text{(i)}\ \frac{\text{Gross Profit} \times 100}{\text{Turnover}}. \qquad \text{(ii)}\ \frac{\text{Net Profit} \times 100}{\text{Turnover}}.$$

These percentages are sometimes shown in brackets opposite the figures of profit in the Trading and Profit and Loss Accounts, and students sitting for examinations are recommended to insert them when these accounts are asked for, if time permits. (See example on page 110.)

94.—**Adjustments for the Final Accounts.** In preparing the Profit and Loss Account as described in the last chapter no provision was made for outstanding liabilities and accruing revenue, nor for the apportionment of various items of income and expenditure received or paid in advance. Provision must be made for these however, as well as for depreciation of assets and for Reserves for expected losses, gains and other purposes.

95.—**Apportionment of Amounts received or paid in advance.** Expenditure made during the financial period under review, part of which properly belongs to the succeeding period, must be apportioned so that these periods each bear their proper share. Such adjustments are usually necessary, for instance, in conjunction with rent, insurance premiums, telephone rent, rates and advertising expenditure, etc. Thus an advertising scheme paid for in the financial period may be intended to extend over and benefit two or three years, and therefore the expenditure should be apportioned and charged in the Profit and Loss Account for each of the years concerned. Again, six months' rates paid on 1st October in a financial year which ends on 31st December must be apportioned so that that year and the one following each bears three months, i.e. half the amount each. There are two methods of doing this: (1) by means of a Journal Entry, the Rates Account may be credited with the proportion paid in advance and a Rates Paid in Advance Account debited; or (2) the amount

to be borne by the succeeding period may be entered on the credit side of the Rates Account, and at the same time re-entered on the debit side, two or three lines below the last entry. The space left is for the total which will be inserted when the account is "ruled off." This latter method is the more usual, as well as the safer, and is shown in the following example :—

TRANSACTIONS.—Rates paid for six months in advance on 1st April £48, and on 1st October £44, 10s.

Advertising Agent was paid £450 on 2nd June, which it is desired to write off in amounts of £150 at the end of each year.

RATES ACCOUNT

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
1924 Jan.	1	To amount brought forward .	—	24	0	0	1924 Dec.	31	By amount prepaid, carried forward .	—	22	5	0
April	1	To Cash .	C.B. 28	48	0	0	"	"	By Transfer to Profit and Loss Account .	J. 34	94	5	0
Oct.	1	" " .	C.B. 62	44	10	0							
				£116	10	0					£116	10	0
1925 Jan.	1	To Reserve brought forward .	—	£22	5	0							

ADVERTISING ACCOUNT

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
1924 June	2	To Cash .	C.B. 40	450	0	0	1924 Dec.	31	By amount carried forward .	—	300	0	0
							"	"	By Transfer to Profit and Loss Account .	J. 34	150	0	0
				£450	0	0					£450	0	0
1925 Jan.	1	To Balance brought forward .	—	£300	0	0							

Amounts received in advance should be similarly apportioned, so that the period *only benefits by the proportion due to it.*

96.—**Provision for Outstanding Items.** Items due and not paid within the financial year must be similarly provided for by either of the methods mentioned in the last paragraph, whether due to or from the trader. Provisions so made are called Reserves. The method is best shown as below:—

EXAMPLE.—At the close of the financial year the following amounts were due but not paid:—

Cartage for December, £25.
Traveller's Commission accrued, £22.

There was also six months' rent, £36, due to the business but not yet received. Items paid during the year are shown in the accounts:—

CARTAGE ACCOUNT

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
1924							1924						
April	5	To Cash .	C.B. 36	47	10	0	Dec.	31	By Transfer to Profit and Loss Account .	J. 34	211	0	6
July	31	" " .	C.B. 62	86	10	6							
Nov.	29	" " .	C.B. 81	52	0	0							
Dec.	31	" Reserve for amount due to date	c/d	25	0	0							
				£211	0	6					£211	0	6
							1925						
							Jan.	1	By Reserve .	b/d	£25	0	0

TRAVELLER'S COMMISSION

Dr. | *Cr.*

				£	s.	d.					£	s.	d.
1924							1924						
June	30	To Cash .	C.B. 55	54	0	0	Dec.	31	By Transfer to Profit and Loss Account	J. 34	76	0	0
Dec.	31	" Reserve for amount accrued .	c/d	22	0	0							
				£76	0	0					£76	0	0
							1925						
							Jan.	1	By Reserve	b/d	£22	0	0

RENT RECEIVABLE ACCOUNT

Dr.				£	s.	d.			Cr.		£	s.	d.
1924 Dec.	31	To Transfer to Profit and Loss Account .	J. 34	72	0	0	1924 June	30	By Cash .	C.B. 32	36	0	0
							Dec.	31	By amount accrued not received .	c/d	36	0	0
				£72	0	0					£72	0	0
1925 Jan.	1	To Reserve brought forward	—	£36	0	0							

Many other accounts may have to be similarly treated.

97.—**Reserves for Estimated expected losses and gains** have also to be made, particularly for Bad and Doubtful Debts, and for Discounts to be allowed or received.

Reserves for Discounts are sometimes made because the total amount of the debtors' balances will usually be subject to reduction by settlement discount when paid; as will the total of sundry creditors.

Hence the usual rate of discount allowed to debtors is calculated on the total of sundry debtors, as per the balances extracted from the Sales Ledger, and a Reserve created for the amount by *debiting* Profit and Loss Account and crediting a Reserve for Discounts Account. A similar reserve is calculated on the total sundry creditors' figure, and *credited* to Profit and Loss Account, the Reserve for Discounts Account being debited.

98.—**The Reserve for Bad and Doubtful Debts** requires careful study.

Debts wholly irrecoverable are written off straight away, or before the books are closed, by transferring the amounts to the debit of a Bad Debts Account, the total of which is transferred to the Profit and Loss Account; but in addition the debtors' accounts may include some which are doubtful, or which it is known will not be likely to be paid in full. There are two methods of making the necessary reserve for such probable losses:

(1) *By actual estimate*, obtained by examining each account in the ledgers and estimating the likely loss upon any doubtful accounts, the total so obtained being debited to Profit and Loss Account, and credited to a "Reserve for Bad and Doubtful Debts Account," by a Journal entry thus:—

JOURNAL

				Dr.			Cr.		
				£	s.	d.	£	s.	d.
1924 Dec.	31	Profit and Loss Account	P.L. 21	60	0	0			
		To Reserve for Bad and Doubtful Debts Account	L.L. 91				60	0	0
		Being Reserve for Doubtful Debts as per list. (If not numerous the items may be entered in this narration.)							

(2) *By a fixed percentage* of the total debtors' balances extracted from the Sales Ledger, after the actually bad debts have been written off. The percentage will vary according to the class of business, but 5 per cent. is a usual figure, and using this percentage the procedure is to take 5 per cent. of the total debtors, debit Profit and Loss Account and credit Reserve for Bad and Doubtful Debts Account as before. The following year 5 per cent. of the total debtors' accounts at that date is again calculated. Then if the new Reserve is more than the one created in the previous year the *difference* only is debited to Profit and Loss Account and credited to the Reserve Account. If the new Reserve happens to be *less* the following year, the difference must be credited to Profit and Loss Account and debited to the Reserve Account, thereby reducing the Reserve to the desired amount. The important point to remember is that the Reserve is not increased year by year to the extent of 5 per cent. on the total debits, but that the figure must be *maintained* at 5 per cent. of the then existing total debtors' balances; hence, it is only the difference between the old Reserve and the new which must be added to or deducted from the previous year's Reserve, as shown below :—

EXAMPLE.—After having written off wholly bad debts the total debtors' balances are as follows :—

December 31, 1924. Total Debtors, £2,000.
December 31, 1925. Total Debtors, £3,000.
December 31, 1926 Total Debtors, £2,300.

Each year a Reserve of 5 per cent. to be made for Bad and Doubtful Debts on the total debtors' balances then on the books

The Reserve at the end of 1924 will be £100; at the end of 1925, £150; at December 1926, £115. Hence in 1924, Profit and Loss Account is debited with £100, and Reserve Account credited. In 1925 the Reserve has to be increased by £50, which amount is debited to Profit and Loss Account, leaving the Reserve at £150.

In 1926 the Reserve has to be only £115, therefore £35 (£150 less £115) must be transferred to the *credit* of Profit and Loss Account.

The entries are as follows :—

JOURNAL

				Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
1924 Dec.	31	Profit and Loss Account . . .	P.L. 21	100	0	0			0
		To Reserve for Bad and Doubtful Debts Account	L.L. 91				100	0	0
		For Reserve of 5 % on Sundry Debtors at this date.							
1925 Dec.	31	Profit and Loss Account . . .	P.L. 22	50	0	0			
		To Reserve for Bad and Doubtful Debts Account	L.L. 92				50	0	0
		For Reserve of 5 % on Sundry Debtors at this date . . . £150							
		Less Old Reserve . . 100							
1926 Dec.	31	Reserve for Bad and Doubtful Debts Account	L.L. 92	35	0	0			
		To Profit and Loss Account . .	P.L. 93				35	0	0
		For Reserve of 5 % on Sundry Debtors at this date . . . £115							
		Old Reserve . . . 150							

The Reserve Account and Profit and Loss Account would appear as follows after the above entries have been posted :—

RESERVE FOR BAD AND DOUBTFUL DEBTS ACCOUNT

Dr. *Cr.*

				£	*s.*	*d.*					£	*s.*	*d.*
1926 Dec.	31	To Profit and Loss Account – Excess of Reserve over 5 % on £2300 .	J. 91	35	0	0	1924 Dec.	31	By Profit and Loss Account—5 % on £2000 . .	J. 36	100	0	0
"	"	To Balance . .	c/d	115	0	0	1925 Dec.	31	By Profit and Loss Account to complete 5 % on £3000 . .	J. 63	50	0	0
				£150	0	0					£150	0	0
							1926 Dec.	31	By Balance. .	b/d	£115	0	0

PROFIT AND LOSS ACCOUNT
(Showing only Bad and Doubtful entries)

Dr.				£	s.	d.					£	s.	d. *Cr.*
		1924											
1924 Dec.	31	To Reserve for Bad Debts @ 5 % . . .	J. 36	100	0	0							
		1925											
1925 Dec.	31	To Reserve for Bad Debts @ 5 % . £150 *Less* 1924 100	J. 63	50	0	0							
		1926											
							1926 Dec.	31	By Reserve for Bad Debts @ 5 % 1925 . £150 *Less* 1926 115	J. 91	35	0	0

All these Reserves must be provided for also in the Balance Sheet, as will be shown in the next chapter.

99.—**Provision for Depreciation of Assets.** This is an adjustment whereby Assets are "written down," i.e. the book value is reduced to allow for the estimated annual depreciation or to spread the original cost of purchasing the asset over a number of years by charging a proportion against the profits of each year concerned. The need for this is obvious in the case of a lease, which at the end of its term becomes of no value. Similarly machinery or motors depreciate in value through wear and tear or obsolescence, and each year should bear some proportion of the loss, instead of the whole being borne by the business in one heavy sum when the asset is of no further use.

There are six methods commonly used for making the necessary provision for depreciation which will now be considered :—

(*a*) *Fixed Instalment Method.*—A percentage fixed rate of reduction is calculated on the original cost of the asset, and thus an equal amount is written off the Profit and Loss Account each year, so that at the end of the period provided for, the account stands at nil, or at break-up value. It is a method best used for short leases, although it may be used in connection with plant and

machinery, providing that the machinery is classified into groups of about the same effective life periods. An example appears on page 107.

(b) *Reducing Instalment Method.*—A fixed rate per cent. on the diminishing value of the asset is written off each year, so as to reduce the asset to break-up value at the end of the estimated term of its life, repairs and small renewals being charged to revenue. It is a simple method commonly used for plant and machinery, fixtures, etc.

The advantage of the method is that in the earlier periods when the depreciation is heaviest the repairs charges are small; later the repairs charges naturally become heavier, whilst the amount of depreciation progressively diminishes, thus keeping the total amount chargeable to revenue fairly level each year. See example at page 108.

(c) *The Annuity Method.*—This is the most scientific method when investment is *not desired outside* the business. It is most suitable for long leases, but not usually for plant, since additions from time to time would necessitate further calculations. The method is to regard the asset as earning a fixed rate of interest on the diminishing value, which is debited to the Asset Account and credited to Profit and Loss Account. After debiting this interest a *fixed amount* is written off the balance of the account, the amount being calculated so that the asset will be reduced to nil at the end of its estimated life or period of usefulness. The fixed amount so written off is debited to Profit and Loss Account.

(d) *Insurance Policy Method.*—This is a means of providing the sum required for the renewal of a lease. A policy is taken out with an Insurance Company for the estimated cost of renewal, this sum being assured for payment at the end of the required period, in consideration of the annual premiums paid. Each year thus bears a proportionate charge in the form of the premium which is debited to Revenue.

This system is a particular form of the Depreciation Fund method next described, but it has the advantage of eliminating risk of loss on the realisation of gilt-edged securities.

(e) *The Depreciation Fund Method.*—This method is advantageous where it is necessary to replace an asset at the end of its life, and to provide money *outside the business* for the purpose.

An equal sum is debited to Profit and Loss Account each year, and credited to a Depreciation Fund Account. An equivalent amount is then invested in gilt-edged securities and allowed to accumulate at compound interest in order to produce the required sum at the end of the desired period.

The advantage is that no disturbance of finances is made

when the time comes for renewing a costly asset, and each year bears an equal burden.

(*f*) *The Revaluation Method.*—This is useful for arriving at the depreciation of loose tools, live stock, copyrights, and rapidly or erratically depreciating plant. The difference between the book value and the revaluation, if the latter is less, is debited to Profit and Loss Account. In the case of loose tools it is sometimes found they have appreciated in value owing to additions from revenue. If such additions represent wages and materials for tools made by the firm's employees, their cost will have already been charged to Trading Account, hence the appreciation may be legitimately credited to Trading Account.

For the purposes of the intermediate examinations it is generally only necessary to be able to *describe* these methods; it is desirable however to be able to deal with methods (*a*) (*b*) and (*f*), and the following examples will show the procedure :—

EXAMPLE.—(*a*) *The Fixed Instalment Method.* Machinery installed cost £500, and it is decided to depreciate this at the rate of 10 per cent. on the original cost each year until completely written off. Show the Machinery Account giving effect to this.

Dr. MACHINERY ACCOUNT *Cr.*

				£	s.	d.					£	s.	d.
1924 Jan.	1	To Cost of Machinery.	C.B. 12	500	0	0	1924 Dec.	31	By one year's Depreciation	J. 26	50	0	0
							,,	,,	By Balance carried forward. . .	—	450	0	0
				£500	0	0					£500	0	0
1925 Jan.	1	To Balance.	b/d	£450	0	0	1925 Dec.	31	By one year's Depreciation	J. 32	£50	0	0
							,,	,,	By Balance .	c/d	400	0	0
				£450	0	0					£450	0	0
1926 Jan.	1	To Balance.	b/d	£400	0	0	1926 Dec.	31	By one year's Depreciation	J. 38	£50	0	0
							,,	,,	By Balance	c/d	350	0	0
				£400	0	0					£400	0	0
1927 Jan.	1	To Balance.	b/d	£350	0	0							

And so on until there remains no balance.

N.B.—Each instalment will be debited to Profit and Loss Account.

EXAMPLE.—(*e*) *The Reducing Instalment Method.* Machinery cost £500, and it is decided to write off 10 per cent. on the diminishing balance of the account each year. Show the Machinery Account, making this provision.

Dr. MACHINERY ACCOUNT *Cr.*

				£	s.	d.					£	s.	d.
1924 Jan.	1	To Cost of Machinery.	C.B. 12	500	0	0	1924 Dec.	31	By one year's Depreciation	J. 26	50	0	0
							„	„	By Balance carried forward . . .	—	450	0	0
				£500	0	0					£500	0	0
1925 Jan.	1	To Balance .	b/d	£450	0	0	1925 Dec.	31	By one year's Depreciation	J. 32	£45	0	0
							„	„	By Balance .	c/d	405	0	0
				£450	0	0					450	0	0
1926 Jan.	1	To Balance .	b/d	£405	0	0	1926 Dec.	31	By one year's Depreciation	J. 38	£40	10	0
							„	„	By Balance .	c/d	364	10	0
				£405	0	0					£405	0	0
1927 Jan.	1	To Balance .	b/d	£364	10	0							

And so on until the asset reaches its break-up value.

EXAMPLE.—(*f*) *The Revaluation Method.* Loose tools purchased 1st January 1924 cost £500. On 31st December 1924 these were valued by the Works' Engineer at £460; on 31st December 1925 at £400. Prepare the Loose Tools Account showing the necessary depreciation.

Dr. LOOSE TOOLS ACCOUNT *Cr.*

				£	s.	d.					£	s.	d.
1924 Jan.	1	To Cost of Loose Tools	C.B. 12	500	0	0	1924 Dec.	31	By Depreciation . . .	J. 26	40	0	0
							„	„	By Balance .	c/d	460	0	0
				£500	0	0					£500	0	0
1925 Jan.	1	To Balance .	b/d	£460	0	0	1925 Dec.	31	By Depreciation . . .	J. 32	£60	0	0
							„	„	By Balance .	c/d	400	0	0
				£460	0	0					£460	0	0
1926 Jan.	1	To Balance .	b/d	£400	0	0							

EXAMPLE.—(*c*) *The Annuity Method.* A lease for seven years cost £5000. Calculate amount to be written off annually to extinguish the Lease Account in seven years, and charging 5 per cent. interest under the Annuity Method.

From Annuity Interest Tables it will be found the amount for £1 for seven years at 5 per cent. is ·172819.

$$\text{Then } £5000 \times \cdot172819 = £864\cdot095$$
$$= £864, \text{ 1s. 11d.}$$

This amount will be the depreciation for each year. Interest at 5 per cent. will be debited year by year on the reducing balance, and by the end of the seventh year the £5000 will have been completely written off.

EXAMPLE.—(*e*) *The Depreciation Fund Method.* A lease for seven years cost £5000. Write this off by the Depreciation Fund Method and raise a fund for a similar amount at 4½ per cent. compound interest for the purpose of replacing the lease at the end of the period

From Sinking Fund Tables it will be found that the amount to be invested yearly at 4½ per cent. to produce £1 in seven years is ·124701.

Then to produce £5000 there must be invested yearly

$$£5000 \times \cdot124701 = £623\cdot505$$
$$= £623, \text{ 10s. 1d.}$$

The Profit and Loss Account must be debited and Depreciation Fund Account credited with this sum each year.

Interest on the investment received annually will be credited to Depreciation Fund Account, and this amount of interest is added to the £623, 10s. 1d. (a previous year's balance), and the new total is then invested similarly year by year for seven years.

A Depreciation Fund Investment Account is debited each year with the depreciation plus interest, and by the seventh year this account will amount to £5000.

In examination exercises students are usually asked to make provision for depreciation or reserves, and as a rule simple fixed percentages are stipulated. The required provisions must not be overlooked. Although there are no fixed schedules for depreciation, the percentages generally adopted are, 10 per cent. off plant and machinery; 5 per cent. off furniture and fittings; 2½ per cent. off buildings. The usual Reserve for Bad and Doubtful Debts is 5 per cent.

It must be remembered that when a sum for reserve or depreciation is credited to an Asset Account, the same amount must always be debited to Profit and Loss Account, excepting the case of apportionments which have been carried forward in the respective accounts. The Balance Sheet must also be adjusted by showing the reserve or depreciation as a deduction from the item concerned, as shown on page 114.

100.—**Example.** The following specimen of Final Accounts will serve to illustrate the matters just described, and to show those accounts in a useful form; their treatment in the Balance Sheet will be dealt with in the next chapter.

TRADING AND PROFIT AND LOSS ACCOUNT
for the year ended 31st December 1924

Dr.				£	s.	d.				£	s.	d. Cr.
1924 Jan. 1	To Stock in Trade			3,000	0	0	1924 Dec. 31	By Sales, *less* Returns		21,690	0	0
Dec. 31	" Purchases, *less* Returns			8,000	0	0	"	By Stock in Trade		4,400	0	0
" "	To Power			200	0	0						
" "	" Manufacturing Wages			6,900	0	0						
" "	To Cartage			150	0	0						
" "	" Balance, being Gross Profit (36·1 %)		c/d	7,840	0	0						
				£26,090	0	0				£26,090	0	0
Dec. 31	To Rent £150 *Less* paid in advance 50			£100	0	0	Dec. 31	By Balance from Trading Account	b/d	£7,840	0	0
" "	To Salaries			700	0	0	" "	By Discounts		310	0	0
" "	" Lighting			88	0	0						
" "	" Heating			154	0	0						
" "	" Rates and Taxes			90	0	0						
" "	" Traveller's Commission			157	0	0						
" "	To Discounts £250 *Plus* Reserve 140			390	0	0						
" "	To Insurances			200	0	0						
" "	" Advertising £450 *Less* Reserve 300			150	0	0						
" "	To General Expenses			255	0	0						
" "	To Postage, etc.			52	0	0						
" "	" Freight			244	0	0						
" "	" Carriage			322	0	0						
" "	" Bad Debts £50 *Plus* Reserve 18			68	0	0						
" "	To Depreciation: Machinery			50	0	0						
	Loose Tools			40	0	0						
	Furniture			10	0	0						
" "	To Balance, being Net Profit (23·4 %)			5,080	0	0						
				£8,150	0	0				£8,150	0	0

It will be noticed the gross profit is $\left(\frac{7,840}{21,690}\times 100\right)=36{\cdot}1$ per cent., and the net profit is $\left(\frac{5,080}{21,690}\times 100\right)=23{\cdot}4$ per cent. of sal[es]. These percentages are useful for comparison with preceding a[nd] succeeding years.

Chapter IX

THE BALANCE SHEET

101.—**Remaining Balances.** The completion of the Profit and Loss Account, and the transfer of the Net Profit (or Loss) to Capital Account having been made, it will be noticed that the balances remaining on the various accounts in the ledgers consist of assets and liabilities. If a new final Trial Balance now be made *it will be found that the total of the debit balances equals the* total of the credit balances. By grouping and totalling together those balances of a similar nature this Trial Balance can be reduced *to a short summarised statement; and if now the debit and credit* sides be transposed the Balance Sheet is obtained, although the items will not be arranged in any of the recognised forms.

102.—**The Form of the Balance Sheet.** Without entering into the controversy as to the headings used for the two sides of the Balance Sheet, it is sufficient to state that in Great Britain the left-hand side is headed "Liabilities" and the other side "Assets." In America the positions of Assets and Liabilities in the Balance Sheet are reversed, but this is not of much importance. The order in which items should be entered in the Balance Sheet is established by custom, and depends largely upon the type of business, but two arrangements which are commonly used may be noted.

(*a*) *Items arranged in the Order of Realisability and Liquidity.* —The assets are set out according to the degree of facility with which they could be converted into cash should occasion arise; *the liabilities according to the order in which they would have* to be paid :—

BALANCE SHEET.

Liabilities	*Assets.*
Bills Payable.	Cash in hand.
Loans.	Cash at Bank.
Sundry Creditors.	Investments.
Expenses Outstanding.	Bills Receivable
Amounts received in advance.	Sundry Debtors.
Advances by Partners (if a Partnership).	Stock in Trade.
Capital Account.	Machinery and Plant
	Furniture and Fittings.
	Land and Buildings.
	Goodwill.

This order of arrangement is that particularly favoured and adopted by banking and similar concerns which desire to emphasise the strength of their position in liquid assets.

(*b*) *Items arranged in the Order of the Degree of Permanence of Assets and Liabilities.*—This arrangement is the reverse of that in the previous paragraph, and is used by the majority of trading concerns.

103.—**Drawing up the Balance Sheet.** The compilation of the Balance Sheet frequently gives trouble to students, but there is no reason why this should be so once the Trial Balance has been agreed. The difficulties usually arise from mistakes or omissions when dealing with the incorporation of the various reserves and apportionments which may have to be made after the Trial Balance has been agreed. For this reason some accountants prefer to make a Final Trial Balance after inclusion of adjustments and completion of the Profit and Loss Account.

104.—**Two useful "Rules"** to be observed when making the Balance Sheet are :—

(1) Items appearing in the Trial Balance must only be used **once**, i.e. either in the Profit and Loss Account or otherwise in the Balance Sheet ; they cannot show in both.

(2) Items given for inclusion in the accounts, but which are mentioned **outside** the Trial Balance must be **dealt with twice**, i.e. both in the Profit and Loss Account, *and also* in the Balance Sheet.

These items outside the Trial Balance are reserves, adjustments or apportionments, and stock *at finish*. (The stock at start is always shown *in* the Trial Balance.)

105.—**The explanation of these two rules** is that in the case of items appearing in the Trial Balance, double entry has already been effected, and that the act of debiting these in the Trading and Profit and Loss Account is simply a process of transferring from existing expense accounts to the Final Accounts.

Those items outside the Trial Balance have not already been dealt with in the books at all, hence in debiting or crediting them, to complete the double entry, a corresponding credit or debit must also be made for each. From another point of view it should be noticed that debiting in the accounts items of expense shown outside the Trial Balance as a charge against profits does not effect payment of such accounts ; they still have to be paid, and therefore are liabilities to be shown in the Balance Sheet.

106.—**How to make the Adjustments.** This can best be shown by dealing with an actual example, and full treatment is given, because this type of exercise almost invariably appears in examination papers.

EXAMPLE.—The following provisions have to be made when preparing the Final Accounts and Balance Sheet on 31st December 1924 from the Trial Balance which follows.

Reser[illegible] [illegible]ors.
Depre[illegible] 5 [illegible] Loose
[illegible] £500.
Paid [illegible]
Amo[illegible] [illegible]al Expenses, £150.
Stock at 31st December 1924, £9,000.

TRIAL BALANCE							ADJUSTMENTS					
	Dr.			*Cr.*			*Add*			*Deduct*		
	£	s	d	£	s	d	£	s	d	£	s	d
Capital				25,000	0	0						
Sundry Creditors				3,000	0	0						
" Debtors	5,100	0	0									
Machinery	4,500	0	0							450	0	0
Loose Tools	800	0	0							50	0	0
Freehold Premises	9,000	0	0							225	0	0
Furniture and Fittings	900	0	0							45	0	0
Stock, 1st January 1924	11,000	0	0									
Purchases	31,000	0	0									
Sales				57,000	0	0						
Discounts	1,000	0	0				121	0	0			
"				750	0	0						
Rent	300	0	0				100	0	0			
Rates and Taxes	120	0	0							30	0	0
Insurance	200	0	0							40	0	0
Bad Debts	100	0	0									
" Reserve				200	0	0	55	0	0			
Reserve Fund				4,000	0	0						
Investments	6,000	0	0							500	0	0
Bills Receivable	1,500	0	0									
Bills Payable				300	0	0						
General Expenses (grouped)	13,000	0	0				150	0	0			
Cash at Bank	5,600	0	0									
Cash in hand	130	0	0									
	£90,250	0	0	£90,250	0	0	Final Stock £9,000					

The preparation of the Profit and Loss Account is left as an exercise for the student, who should be careful to include the adjustments specified, as explained in the previous chapter.

In making the required Reserves and provisions it will be found a considerable aid to place the calculated adjustments opposite the account concerned, in two columns marked "add" and "deduct," as shown above. It is not suggested the Trial Balance should be rewritten to do this; the "add" and "deduct"

items may be written at the side of the one printed in the question paper. By this means there is less likelihood of omitting any adjustment from the Profit and Loss Account or the Balance Sheet. Assuming the Final Accounts to be completed as described in the previous chapter, the Balance Sheet must be prepared, including the adjustments as follows. The adjustments which have been incorporated in the accounts, and which must also be shown in the Balance Sheet, are printed in italics.

BALANCE SHEET as at 31st December 1924

Liabilities.	£	*s.*	*d.*	*Assets.*	£	*s.*	*d.*
Capital— As at 1/1/24 £25,000 Add Net Profit 8,404	33,404	0	0	Freehold Premises £9,000 *Less Depreciation* 2½% . . 225	8,775	0	0
Sundry Creditors £3,000 *Add Rent unpaid* 100 *General Expenses outstanding* . 150	3,250	0	0	Machinery . . £4,500 *Less Depreciation* 10% . . 450	4,050	0	0
Bills Payable . . .	300	0	0	Loose Tools . £800 *Less Depreciation* 50	750	0	0
Reserve Fund . . .	4,000	0	0	Furniture and Fittings . . £900 *Less Depreciation* 5% . 45	855	0	0
				Sundry Debtors £5,100 *Less Reserves:* *For Bad Debts* £255 *For Discounts* 121 376	4,724	0	0
				Unexpired Rates £30 *Do. Insurance* 40	70	0	0
				Investments £6,000 *Less written off* . 500	5,500	0	0
				Bills Receivable . .	1,500	0	0
				Stock, 31st Dec. 1924 .	9,000	0	0
				Cash at Bank £5,600 ,, in hand . 130	5,730	0	0
	£40,954	0	0		£40,954	0	0

107.—**Common Errors and Difficulties.** In preparing Final Accounts and Balance Sheets the following possible sources of error and pitfalls should be observed :—

(*a*) **The Period covered** by the Accounts must be particularly noted. Sometimes exercises cover only six months' figures, and when an adjustment of, say, Depreciation or Interest on Capital has to be made *at a rate per cent. per annum*, be careful to include only *half* the annual charge.

Where the period is not actually stated it can usually be found by noticing the date of the stock at the beginning, and that of the stock at the end; of necessity these two dates must be known. If not given a complete year must be assumed.

In the case of adjustments concerning Reserves for Bad Debts and Discounts on Sundry Debtors, the full percentage must be reserved whatever the period of the accounts, but in the case of interest, e.g. on capital or loans, it must be calculated for the period of the accounts only.

(*b*) **Stock.** It is not the stock shown in the Trial Balance which appears on the Balance Sheet, but the *final* stock, which is usually mentioned amongst the adjustments, or at any rate outside the Trial Balance.

(*c*) **Omission of Adjustments.** This can be avoided by adopting the method recommended on page 113, providing that they are *all* noted in the way ... the accounts. Interest ...

(*d*) **Interest** on I... are sometimes shown in ... and no other reference is made ... ments to be made. If the accounts cover a whole year, the other six months' interest must be provided for, and a note made at the foot of the accounts that a half-year's dividend on preference shares is unpaid. This also applies to items like rent, rates, etc., for which payments covering a full year have not been made.

(*e*) **Items Paid in Advance.** Any proportion of expenses paid in advance must appear as Assets in the Balance Sheet, and similarly Revenue received in advance must be shown on the liabilities side. Students provide for these in the Final Accounts, but often forget to include them also in the Balance Sheet, and consequently a " balance " is not obtained.

(*f*) **Depreciation.** Students often make the necessary deductions for depreciation from Assets in the Balance Sheet, but forget to include this as a debit in the Profit and Loss Account, and of course the Balance Sheet again will not agree. This is the position ... *outside the Trial Balance.* ... of Plant " (or other asset) appe... ...is figure of depreciation

should *not* be shown as a deduction from the particular asset, as this will have been done already. In this case, if it is desired to show the deduction, the depreciation shown *in* the Trial Balance must be first added back to the Asset figure.

(g) **Bad Debts.** This is an item that must be very carefully considered.

(1) If "Bad Debts" appear *in* the Trial Balance, they have already been deducted from the Sundry Debtors' figure which also appears in the Trial Balance. Hence they must not be deducted again in the Balance Sheet.

(2) If Bad Debts appear *outside* the Trial Balance, the instruction being to write them off, it is obvious they must be debited in the Profit and Loss Account; *but also*, and this is often overlooked, this figure must be deducted from the Sundry Debtors in the Balance Sheet.

EXAMPLE.—In the Trial Balance appears "Sundry Debtors, £5080." Among the adjustments it is stated that £80 Bad Debts have not yet been written off, and a Reserve of 5 per cent. has to be made: show the Balance Sheet entry.

(*a*) *Correct method*:

Debtors	£5080	
Less Bad Debts	80	
	£5000	
Less Reserve 5 per cent. . .	250	
		£4750

(*b*) *Incorrect*:

Debtors	£5080	
Less Bad Debts Reserve 5 per cent.	254	
		£4826

It should be noticed, however, that if the £80 Bad Debts and Sundry Debtors £5080 *both* appeared *in* the Trial Balance method (*b*) would be the correct one.

(3) The Bad Debts Reserve is often a cause of disagreement between the Balance Sheet totals, generally due to one of two mistakes. Either the wrong Bad Debts Reserve (the old one) has been deducted from Sundry Debtors; or else the difference between the old Reserve and the new (i.e. the difference which has to be debited to Profit and Loss Account) has been entered as the deduction from Sundry Debtors, instead of the new Reserve being deducted. Thus:—

EXAMPLE.

Debtors, 31st Dec. 1924, £2000. Required Reserve 5 per cent. = £100.
Debtors, 31st Dec. 1925, £3000. Required Reserve 5 per cent. = £150.
Give the Balance Sheet entry for 1925.

The Profit and Loss Account 1925 would be debited with £50 thus:—

New Reserve 1925 . . .	£150
Less Old Reserve 1924 . . .	100
Amount charged against profits .	£50

Then in the Balance Sheet the correct entry would be:—

Correct	Sundry Debtors	£3000
	Less Reserve for Bad Debts . .	150
		£2850

but frequently the following mistake is made (i.e. deducting the same amount as was debited to Profit and Loss Account).

Incorrect	Sundry Debtors	£3000
	Less Bad Debts Reserve . .	50
		£2950

which would prevent the Balance Sheet totals from agreeing to the extent of £100.

(*h*) **The Balance Sheet Heading.** Many students fall into the common error of heading the Balance Sheet "for the year ending ——," whereas the correct heading is "Balance Sheet as at 31st December 1924." The Balance Sheet is a state- *ment of the financial position at any particular date, and does not* refer to any period whatsoever, as does the Profit and Loss Account. The latter, however, is correctly headed "For the period ended 31st December 1924," and the period covered should always be stated.

(*i*) **Reserves for Discounts.** *No Reserve should be made in respect of Reserve for Discounts on Sundry Creditors, unless* a Reserve is also made against discount on outstanding debtors.

108.—**Reserves and Special Funds.** The balances of these accounts appear in the Balance Sheet, except in the case of secret reserves (see below). The following classes of Reserves should be noted:—

(*a*) **Reserves or Reserve Accounts** are amounts charged against profits, and may be specific or general.

A Specific Reserve is one set aside to provide for a stated [illegible] ...ticipated loss, e.g. Bad Debts, Discounts, [illegible] shown in the Balance [illegible] which they appertain.

A [illegible] of profits set aside to strengthen the financial position of the firm, and provides

against unknown or for general contingencies; it is thus available for equalising dividends and increasing working capital. Unlike specific Reserves the General Reserve is shown as a separate item on the liabilities side of the Balance Sheet, not as a deduction from any particular asset.

(*b*). **Reserve Funds.** A Reserve Fund is either general or specific, and is generally recognised as differing from a Reserve or Reserve Account in that a corresponding sum of money is invested in realisable assets *outside* the business, whilst General or Specific Reserves are not, i.e. they are retained in the business. The term is loosely used often when no such outside investment exists, but this is deprecated by some authorities, and it is desirable to preserve the distinction.

A General Reserve Fund is similar to a General Reserve in purpose, but is invested outside the business, usually in some easily realisable asset such as Government Stocks or Bonds.

A Specific Reserve Fund provides for some definite purpose, and that purpose gives the fund its name. Thus instances are:—

Depreciation Fund—made to replace any depreciating assets, e.g. buildings, plant, etc.

Sinking Fund—usually created for redeeming some definite liability due for redemption some time hence, e.g. debentures.

These Reserve Funds appear as separate items on the liabilities side of the Balance Sheet, and on the opposite side there is usually a corresponding entry, e.g. Reserve Fund Investment Account, which represents the asset in which the fund has been invested, generally gilt-edged stock.

(*c*) **Secret Reserves.** Where these exist they are not disclosed on the face of the Balance Sheet.

109.—**How Formed.** Secret Reserves may arise or be formed in several ways:—

(1) By charging expenditure of a capital nature to Revenue, thus reducing profit instead of increasing the book value of some asset.

(2) By making excessive reserves for Bad Debts, Discounts, etc.

(3) By writing down assets below their actual value, e.g. premises, machinery, investments.

(4) By allowing assets to remain at an original figure when actually they have considerably appreciated in value, e.g. city land and buildings.

(5) By omitting assets altogether. This is often due to such assets having been written down year by year until

the account stands at nil, as for instance the premises of the Bank of England. This is often done in connection with Goodwill, but it is always desirable to leave at least a token value to reveal the existence of an asset.

110.—**Objections to Secret Reserves** sometimes raised are that :—

(1) The practice leads to manipulation of profits, and in the case of Companies to improper dealings in the shares by the Directors.

(2) The profit will not be properly disclosed by the Accounts, and may thus affect dividend declared.

(3) The Balance Sheet does not reveal the true position as it should do.

111.—***In favour of Secret Reserves*** it is advanced that :—

(1) If the motives are *bona fide* they are advantageous in giving strength to the financial position.

(2) Many financial authorities approve of them within reasonable limits.

(3) In any case many items in a Balance Sheet are only estimated, and there must be some variation in such estimates due to different points of view of business men. Some estimates may be too high, and therefore it is argued that it is better to create Secret Reserves to play for safety and financial strength.

(4) They are particularly advantageous to, and are largely created by Banks, so that dividends can be maintained without violent fluctuations. This safeguards the essential good credit of Banks by avoiding disclosure of any extraordinary losses. The value of premises owned by English Banks are notoriously understated, and those of the Bank of England are omitted altogether.

112.—***A Statement of Affairs*** is an account or statement showing the financial position of a business or other concern, but apart from its particular meaning in connection with Bankruptcy affairs this Statement of Affairs conveys the idea to accountants that the books are not kept on the Double Entry system

113.—**Receipts and Payments Account and Income and Expenditure Account.** These are usually adopted by non-trading concerns, such as Clubs and Hospitals, and often by professional men. They are not infrequently erroneously called "Balance Sheets," which of course they are not.

114.—**An Income and Expenditure Account** deals with the *whole* of the income and expenditure for the year under review, regardless of whether the items have been actually received and paid, or not. It thus excludes capital items, but provides for

against unknown or for general contingencies; it is thus available for equalising dividends and increasing working capital. Unlike specific Reserves the General Reserve is shown as a separate item on the liabilities side of the Balance Sheet, not as a deduction from any particular asset.

(*b*). **Reserve Funds.** A Reserve Fund is either general or specific, and is generally recognised as differing from a Reserve or Reserve Account in that a corresponding sum of money is invested in realisable assets *outside* the business, whilst General or Specific Reserves are not, i.e. they are retained in the business. The term is loosely used often when no such outside investment exists, but this is deprecated by some authorities, and it is desirable to preserve the distinction.

A General Reserve Fund is similar to a General Reserve in purpose, but is invested outside the business, usually in some easily realisable asset such as Government Stocks or Bonds.

A Specific Reserve Fund provides for some definite purpose, and that purpose gives the fund its name. Thus instances are:—

Depreciation Fund—made to replace any depreciating assets, e.g. buildings, plant, etc.

Sinking Fund—usually created for redeeming some definite liability due for redemption some time hence, e.g. debentures.

These Reserve Funds appear as separate items on the liabilities side of the Balance Sheet, and on the opposite side there is usually a corresponding entry, e.g. Reserve Fund Investment Account, which represents the asset in which the fund has been invested, generally gilt-edged stock.

(*c*) **Secret Reserves.** Where these exist they are not disclosed on the face of the Balance Sheet.

109.—**How Formed.** Secret Reserves may arise or be formed in several ways:—

(1) By charging expenditure of a capital nature to Revenue, thus reducing profit instead of increasing the book value of some asset.

(2) By making excessive reserves for Bad Debts, Discounts, etc.

(3) By writing down assets below their actual value, e.g. premises, machinery, investments.

(4) By allowing assets to remain at an original figure when actually they have considerably appreciated in value, e.g. city land and buildings.

(5) By omitting assets altogether. This is often due to such assets having been written down year by year until

the account stands at nil, as for instance the premises of the Bank of England. This is often done in connection with Goodwill, but it is always desirable to leave at least a token value to reveal the existence of an asset.

110.—**Objections to Secret Reserves** sometimes raised are that :—

(1) The practice leads to *manipulation of profits*, and in the case of Companies to improper dealings in the shares by the Directors.

(2) The profit will not be properly disclosed by the Accounts, and may thus affect dividend declared.

(3) *The Balance Sheet* does not reveal the true position as it should do.

111.—**In favour of Secret Reserves** it is advanced that :—

(1) If the motives are *bona fide* they are advantageous in giving *strength* to the financial position.

(2) Many financial authorities approve of them within reasonable limits.

(3) In any case many items in a Balance Sheet *are only* estimated, and there must be some variation in such estimates due to different points of view of business men. Some estimates may be too high, and therefore it is argued that it is better to create Secret Reserves to play for safety and financial strength.

(4) They are particularly advantageous to, and are largely created by Banks, so that dividends can be maintained without violent fluctuations. This safeguards the essential good credit of Banks by avoiding disclosure of any extraordinary losses. The value of premises owned by English Banks are notoriously understated, and those of the Bank of England are omitted altogether.

112.—**A Statement of Affairs** is an account or statement showing the financial position of a business or other concern, but apart from its particular meaning in connection with Bankruptcy affairs this Statement of Affairs conveys the idea to accountants *that the* books are not kept on the Double Entry system.

113.—**Receipts and Payments Account and Income and Expenditure Account.** These are usually adopted by non-trading concerns, such as Clubs and Hospitals, and often by professional *men*. They are not infrequently erroneously called "Balance Sheets," which of course they are not.

114.—**An Income and Expenditure Account** deals with the *whole* of the income and expenditure for the year under review, regardless of whether the items have been actually received and paid, or not. It thus excludes capital items, but provides for

outstanding liabilities, and for income due but not paid for any particular year. The balance of the account represents a surplus or deficit for the year. Income usually appears on the credit side and expenditure on the debit side of the account, as in a Profit and Loss Account.

115.—**A Receipts and Payments Account** is a classified summary which includes only those items actually paid and actually received within the period of the Account, whether of a capital nature or otherwise. It may therefore include payments not only for the current year or period, but also for the previous and succeeding years. The balance of this account does not therefore represent the surplus or deficit for the year, but the amount of cash in hand, or overdrawn, i.e. the cash position. Receipts are shown on the debit side and payments on the credit side, as in the Cash Book. It is, however, possible to compile from this an Income and Expenditure Account, which will show the result of operations for the period, by ascertaining the outstanding assets and liabilities at the beginning and end of the period.

Illustration.—A Receipts and Payments Account drawn up from the Cash Book of the Winner Cricket Club for the year ended 31st December 1924:—

RECEIPTS AND PAYMENTS ACCOUNT

Dr. *Cr.*

	£	s.	d.		£	s.	d.
To Balance 1st Jan. 1924	30	0	0	By Rent	90	0	0
„ Gate Receipts	151	2	6	„ Rates	46	0	0
„ Entrance Fees	21	0	0	„ Printing	62	0	0
„ Subscriptions—				„ Wages	112	10	0
Playing Members, 1923	10	10	0	„ Stationery and Postage	18	10	6
„ „ 1924	52	10	0	„ Repairs to Pavilion			
Honorary Members, 1923	15	15	0	and Fences	51	0	0
„ „ 1924	350	10	0	By Extension of Pavilion	200	0	0
„ „ 1925	26	5	0	„ New Motor Mower	70	12	6
To Dividends on Investment	20	10	6	„ Players' Travelling Expenses	60	9	6
To Net Proceeds from				By Bats, Balls, etc.	22	0	0
Catering Pavilion	122	2	6	„ Balance	67	3	0
	£800	5	6		£800	5	6

With a view to compiling an Income and Expenditure Account it is found on examining the invoices and other records that: Rates have been paid in advance to the amount of £9; Rent for one quarter is still due. Accounts unpaid are, Printing, £6; Bats and Balls, £18; Wages, £13. Playing Members' Subscriptions for 1924 are in arrears £12; Honorary Members £50.

From this information an Income and Expenditure Account for the year ended 31st December 1924, showing the surplus income over expenditure for that year, can be prepared thus:—

THE WINNER CRICKET CLUB

Income and Expenditure Account for the year ended 31st December 1924.

Dr. *Expenditure.*		£	s.	d.	*Income.*	£	s.	*Cr.* d.
To Rent . . .	£90				By Gate Receipts . .	151	2	6
Add . .	30				„ Catering Receipts (net)	122	2	6
		120	0	0	„ Entrance Fees . . .	21	0	0
„ Rates . . .	£46				„ Subscriptions—			
Less . .	9				Playing Members .	64	10	0
		37	0	0	Honorary Members .	400	10	0
„ Printing . . .	£62				By *Dividends on Investments*	20	10	6
Add . .	6							
		68	0	0				
„ Wages	£112 10 0							
Add	. 13 0 0							
		125	10	0				
„ Stationery and Postage		18	10	6				
„ Repairs . . .		51	0	0				
„ Travelling Expenses .		60	9	6				
„ *Baths, Balls, etc.*	£22							
Add . .	18							
		40	0	0				
„ Balance, excess of Income over Expenditure		259	5	6				
		£779	15	6		£779	15	6

It will be noticed that the capital expenditure on the pavilion and mower have been excluded, also subscriptions which belong *to the previous and succeeding* years. The adjustments are shown in the example as additions and deductions to show the procedure, but in practice only the figures in the cash columns should be shown.

116.—**Note on the Double Account System.** The phrase Double Account must not be confused with the term *Double* Entry. *The Double Account* System is one used by companies formed generally under special Acts of Parliament, such as Railway Companies, which operate undertakings of public utility involving heavy capital expenditure of a permanent nature. The system of book-keeping is precisely the same in both, i.e. Double Entry, but the distinction between the *Double Account System*

and the Single Account System (i.e. the ordinary Double Entry System; the term must not be confused with single *Entry*) is only apparent in the Final Accounts.

117.—**The object of the Double Account System** is to show what Capital has been raised and what Capital has been expended, and herein lies the principal difference between it and the ordinary Double Entry Single Account System. The latter shows the present value of assets, the former shows the total amount spent on assets.

118.—**The Balance Sheet in the Double Account System** is divided into two parts;—

(1) The Capital Account showing on the credit side Capital Receipts to date, and on the debit side Capital Expenditure to date.

(2) The Balance Sheet proper, to which is carried the balance of the Capital Account, and in which are shown floating assets and liabilities, revenue balances and reserves, etc., as in an ordinary Balance Sheet.

By this means total Capital raised and the manner in which it has been expended is clearly shown; any provision for depreciation is not made in the usual way, but instead all repairs and renewals and replacements are charged up to revenue, the idea being that thereby the capital value is thereby maintained.

For present purposes it is only necessary to know the principles of the Double Account System; the treatment of Capital Losses, Depreciation Funds and Deferred Revenue Expenditure must be dealt with in the subject of Advanced Accounts.

Chapter X

CONSIGNMENT ACCOUNTS

119.—**Consignments.** A merchant or trader sometimes sends a consignment of goods to another person for the purpose of sale on his behalf. The agent or person receiving such goods is called the consignee; the goods do not become his property, but are held by him until such time as he may be able to sell them. If unable to find a buyer, the consignee may return the goods to his principal, the consignor.

A consignment is therefore not a sale, nor is it the same as "Goods on sale or return." In the latter case the goods are sent to a prospective *purchaser*, who has the option of accepting and paying for the goods or of returning them within a reasonable period; but the person receiving a consignment is not a purchaser, he is the agent of the consignor for the purpose of finding a purchaser and effecting a sale, in return for which he receives a commission. Consignments are usually sent to some place abroad, but not necessarily so.

120.—**Del Credere Commission.** In an ordinary consignment the consignor has to bear all the expenses in connection with the shipment. He also bears the risk, when the goods are sold on credit, of duly receiving payment from the purchaser; the consignee, being only an agent, is not liable. However, the agent may undertake to pay the consignor whether he himself receives payment from the purchaser or not, and in return for this undertaking he may receive a larger or extra commission; such extra payment is known as "Del Credere" commission, and is usually shown separately from the ordinary agency commission.

121.—**A Consignment Outwards** is the despatch of goods from one place to another (usually abroad) for sale. To the agent receiving these goods for sale the consignment is a **Consignment Inwards.** The book-keeping in each case requires separate consideration.

THE CONSIGNOR'S BOOKS AND PROCEDURE

122.—**How to record Consignment Outwards.** When making a consignment the value cannot be debited in the ordinary

Sales Book to the consignee, because he is not a debtor to the consignor, nor have the goods been sold to him. A special "Consignment Day Book" is generally used, and the amounts entered therein are debited to a special Consignment Account. This account may appear in the Sales or Impersonal Ledger, or if there are many consignments, a special Consignment Ledger may be kept. Each consignment requires a separate account, which may be headed in any appropriate manner, e.g.

"Consignment to John Jones."
"Consignment to Montevideo."
"Consignment No. 762."

The total of the Consignment Day Book must be credited to a "Consignments Outwards Account" (or "Goods on Consignment Account").

As the goods so consigned still represent part of the consignor's stock unsold, even though sent to another place, the amounts charged in the Special Day Book should be at cost price.

A *pro forma* invoice is usually sent to the consignee, giving full particulars of the goods, shipping marks, packing, weight, and measurements.

123.—**Expenses of Consigning the Goods.** These are incurred by the consignor and generally include railway carriage and cartage, freight, marine insurance, dock dues, etc. Such expenses must be debited to the consignment account concerned.

The expenses which have to be disbursed when the goods arrive are paid out by the consignee, e.g. dock dues, wharfage, cartage, storage, rent, fire, insurance, etc. In his own books the consignee debits these expenses to the consignor's personal account, but until the consignor receives an account from the consignee at the end of the transaction no entry for these expenses can be shown in the consignor's own ledger.

124.—**Financing the Consignment.** The consignor has several alternatives :—

(1) *To wait for payment* from the consignee until he has sold and received payment for the consignment.

(2) *To obtain an advance* from the consignee against the shipment. This should be credited to a separate personal account in the name of the consignee—*not* to the Consignment Account, as the amount is a liability until the goods are sold, and if a sale is not effected eventually, the advance would have to be repaid to the agent.

(3) *To draw a Documentary Bill of Exchange* on the consignee for, say, 50 per cent. to 80 per cent. of the value of the shipment, and discount this at the Bank, thus securing the use of the money until a sale is effected.

When the Bill and documents reach the consignee through the banker's agent, he pays the Bank the amount drawn for, and thus secures the Bill of Lading and consequently the goods. By paying an instalment to the Bank he may take the goods from the docks piecemeal if he so desires; or if his credit is good he might obtain complete delivery merely on signing his acceptance on the Bill.

When the shipper discounts such a Bill the discount may be (1) debited to Discounting Charges Account, thus treating the item as a general expense of the business, or (2) debited to the Consignment Account, treating the item as a consignment expense. The credit entry corresponding will be made in the Cash Book.

125.—**Account Sales.** When a sale has been effected the consignee sends a detailed statement called an Account Sales, showing the proceeds and expenses he has disbursed, thus:—

ACCOUNT SALES *of 60 Cases of Cloth from T. J. Murray, London, per s.s. "Carona," sold by John Jones, Montevideo.*

			£	s.	d.
MARK T.J.M. LONDON 36—95	35 Cases @ £10		350	0	0
	25 Cases @ £13		325	0	0
			£675	0	0
	Less Charges and Expenses:—				
	Dock dues and landing charges . . .	£5 10 0			
	Warehousing . .	7 10 0			
	Insurance	3 0 0			
	Commission 2½% . .	16 17 6			
	Del Credere 1¼% . . .	8 8 9			
			41	6	3
			£633	13	9
	Less Advance		250	0	0
	E. & O. E.				
	Sight draft for £383. 13s. 9d. herewith .		£383	13	9

Montevideo, 24 June 1924.
(Signed) John Jones.

On receiving this statement the consignor makes Journal entries as follows:—

(1) Debits consignee with gross proceeds as shown by the Account Sales, and
Credits Consignment Account with same amount.

(2) Credits consignee with his expenses and commission, and
Debits Consignment Account with the same amount.

If the Account Sales is rendered in foreign currency, the amounts must be converted into sterling, the conversion rate being the rate ruling the day the account is received.

126.—**Closing the Consignment Accounts**:—

(*a*) The balance of the Consignment Account on completion is transferred to the Profit and Loss Account.

(If any of the consignment stock remains unsold the cost or actual value at that date should first be shown on the credit side of the Consignment Account together with a proportionate share of the consignor's expense, and brought down as a balance on the debit side below the ruling off.)

(*b*) The balance of the Consignment Outwards Account should then be transferred to the credit of the Trading Account, the former being merely in the nature of a Sales Account.

(*c*) Bills Receivable Account (or Cash Account as the case may be) must be debited with the amount received in settlement and consignee's account credited.

Example.—

Jan. 9. Consigned 69 Cases of Cloth to J. Jones, Montevideo, value £460.

Jan. 9. Paid: Railway Cartage and Carriage £12, Insurance £8, Freight and Dock dues £22.

Jan. 10. Drew Bill on J. Jones at 90 days' sight (sighted Feb. 1) for £250 as an advance against the consignment; discounted this for £246.

July 26. Received Account Sales from J. Jones showing that 60 cases had realised £675, his expenses and commission being £41, 6s. 3d. The 9 cases unsold were valued at cost at £58. Received 90 days' sight draft on London for £383, 13s. 9d. from J. Jones. Make the necessary entries in the consignor's books to record these transactions.

JOURNAL

				Dr. £	s.	d.	Cr. £	s.	d.
1924 Jan.	9	Consignment Account	24	460	0	0			
		To Consignment Outwards Account (or Goods on Consignment Account) . .	25				460	0	0
		Value of 69 cases shipped to J. Jones, Montevideo.							
July	26	J. Jones, Montevideo	26	675	0	0			
		To Consignment Account . . .	24				675	0	0
		Gross proceeds of sale of 60 cases as per Account Sales.							

JOURNAL—Continued

				Dr. £	s.	d.	Cr. £	s.	d.
July	26	Consignment Account	24	41	6	3			
		To J. Jones	26				41	6	3
		Expenses and Commission as per Account Sales							
"	31	Consignment Outwards Account		460	0	0			
		To Trading Account					460	0	0
		Being sales on consignment.							
"	"	Consignment Account		232	6	0			
		To Profit and Loss Account . . .					232	6	0
		Profit on sales of consignment							

CASH BOOK

Dr.				£	s.	d.					£	s.	*Cr.* d.
1924 Jan.	10	To Bill Receivable discounted .	32	250	0	0	1924 Jan.	9	By Consignment Account—				
							"		Cartage and carriage	24	12	0	0
							"		Insurance	24	8	0	0
							"		Freight, etc .	24	22	0	0
								10	Discount on Bill	24	4	0	0

BILLS RECEIVABLE BOOK

Date.	No.	From whom received.	Led. Fol.	Discount. £	s.	d.	Amount of Bill. £	s.	d.	Term.	Due Date.	Remarks.
1924 Jan. 10 (sighted Feb. 1)	2	J. Jones, Montevideo	26				250	0	0	90 d/s	May 4 1924	Discounted 10/1/24
July 26	3	J. Jones .	26				383	13	9	90 d/s	Oct. 23 1924	

If the Account Sales is rendered in foreign currency, the amounts must be converted into sterling, the conversion rate being the rate ruling the day the account is received.

126.—**Closing the Consignment Accounts** :—

(*a*) The balance of the Consignment Account on completion is transferred to the Profit and Loss Account.

(If any of the consignment stock remains unsold the cost or actual value at that date should first be shown on the credit side of the Consignment Account together with a proportionate share of the consignor's expense, and brought down as a balance on the debit side below the ruling off.)

(*b*) The balance of the Consignment Outwards Account should then be transferred to the credit of the Trading Account, the former being merely in the nature of a Sales Account.

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JOURNAL

				Dr. £	s.	d.	Cr. £	s.	d.
1924 Jan.	9	Consignment Account	24	460	0	0			
		To Consignment Outwards Account (or Goods on Consignment Account) . .	25				460	0	0
		Value of 69 cases shipped to J. Jones, Montevideo.							
July	26	J. Jones, Montevideo	26	675	0	0			
		To Consignment Account . . .	24				675	0	0
		Gross proceeds of sale of 60 cases as per Account Sales.							

JOURNAL—*Continued*

				Dr. £	s.	d.	Cr. £	s.	d.
July	26	Consignment Account	24	41	6	3			
		To J. Jones	26				41	6	3
		Expenses and Commission as per Account Sales.							
"	31	Consignment Outwards Account . . .		460	0	0			
		To Trading Account					460	0	0
		Being sales on consignment.							
"	"	Consignment Account		232	6	0			
		To Profit and Loss Account . . .					232	6	0
		Profit on sales of consignment.							

CASH BOOK

Dr.				£	s.	d.					£	s.	d. Cr.
1924 Jan.	10	To Bill Receivable discounted .	32	250	0	0	1924 Jan	9	By Consignment Account—				
							"		Cartage and carriage .	24	12	0	0
							"		Insurance	24	8	0	0
							"		Freight, etc .	24	22	0	0
								10	Discount on Bill . .	24	4	0	0

BILLS RECEIVABLE BOOK

Date.	No.	From whom received.	Led. Fol.	Discount. £	s.	d.	Amount of Bill. £	s.	d.	Term.	Due Date.	Remarks.
1924 Jan. 10 (sighted Feb 1)	2	J. Jones, Montevideo	26				250	0	0	90 d/s	May 4 1924	Discounted 10/1/24
July 26	3	J. Jones .	26				383	13	9	90 d/s	Oct. 23 1924	

LEDGER

Dr. CONSIGNMENT TO J. JONES, Montevideo *Cr.*

				£	s.	d.					£	s.	d.
1924 Jan.	9	To Goods	J. 21	460	0	0	1924 July	26	By J. Jones	J. 21	675	0	0
"	"	" Cash (Carriage)	C.B. 12	12	0	0	"	"	" Stock (Unsold) £58 0 0 add $\frac{58}{460} \times 42$ for Expenses, say £5 6 0 Carried down		63	6	0
"	..	To Cash (Insurance)	"	8	0	0							
"	..	To Cash (Freight)	"	22	0	0							
"	10	To Cash (Discount on Bill)	"	4	0	0							
"	"	To Expenses and Commission	"	41	6	3							
July	26	Profit and Loss a/c (Profit)	J. 21	190	19	9							
				£738	6	0					£738	6	0
1924 July	26	To Balance	b/d	£63	6	0							

CONSIGNMENT OUTWARDS ACCOUNT

Dr. (or Goods on Consignment Account) *Cr.*

				£	s.	d.					£	s.	d.
1924 July	31	To Trading a/c	J. 21	460	0	0	1924 Jan.	9	By Consignment a/c	J. 21	460	0	0

Dr. J. JONES, Montevideo *Cr.*

				£	s.	d.					£	s.	d.
1924 July	26	To Consignment a/c	J. 21	675	0	0	1924 Jan.	10	By Bill Received	6	250	0	0
							July	26	By Consignment a/c	J. 21	41	6	3
							"	"	By Bill Receivable	6	383	13	9
				£675	0	0					£675	0	0

TRADING ACCOUNT

Dr.													*Cr.*
							1924				£	s.	d.
							July	31	By Sales . .		*	*	*
							"	"	" Goods on Consignment a/c . .	21	450	0	0

* The figures here would be the ordinary sales of the business.

PROFIT AND LOSS ACCOUNT

Dr.													*Cr.*
							1924				£	s.	d.
							July	31	By Consignment a/c . (Net Profit)	J. 21	100	10	9

127.—Summary of Procedure in the Books of the Consignor:—

DEBIT.	CREDIT.	ITEM CONCERNED.
(1) Consignment a/c.	Consignment Outwards a/c (or goods on consignment).	Cost price of goods.
(2) Ditto.	Cash, Bank, or, if not paid, the personal a/c of the person to whom the amount is due.	Expenses incurred by consignor.
(3) Bills Receivable a/c (or Cash, if Cash remitted).	Consignee's a/c.	Any advances made on the consignment.
(4) Consignee's a/c.	Consignment a/c.	Gross proceeds as per Account Sales.
(5) Consignment a/c.	Consignee's a/c.	Expenses [illegible] by consignee, and [illegible] mission as per Account Sales.
(6) Ditto.	Profit and Loss a/c.	Transfer of pro[illegible] [illegible]
(7) Bills Receivable a/c (or Cash if Cash remitted).	Consignee's a/c.	Ba[illegible]
(8) Consignment Outwards a/c.	Trading a/c.	[illegible]

(9) Bring down on debit side of the Consignment a/c any [illegible] goods [illegible] unsold. This amount must be the cost value or [illegible] whichever is the lower, plus a due proportion of the expenses [illegible].

128.—**An Account Current** between the consignor and consignee is sometimes adopted, whereby each party allows interest to the other on payments made in advance of the final date of settlement, as explained in Vol. II, Chap. I, pp. 1 *et seq.*

THE CONSIGNEE'S BOOKS

129.—**Procedure on Receipt of Consignment.** When the consignment is received, together with the *pro forma* invoice, usually no entry is made in the Account Books, but details should be recorded in a Memorandum Book which may be named "Consignment Inwards Stock Book," or "Consignment Inwards Book." Alternatively, the Consignment Inwards Account might be debited and consignor credited with the full amount of the consignment, but this is not usual.

Expenses paid in connection with unloading, carting and storing the goods should be debited to the consignor's account, crediting Cash Account.

If an advance is remitted to the consignor in the form of a sight draft (=cash) or a Bill Payable, his account must be debited, and cash or Bills Payable Account credited.

130.—**Procedure on Sale of Consignment.** On selling the whole or part of the goods for cash, debit cash with the amount received, and credit the consignor; if sold on credit, debit the amount for which sold to the purchaser's account in the Sales Ledger, and credit consignor through the medium of the Journal.

Selling commission should then be debited to consignor's account, and credited to the consignee's own Commission Account; as also should any *Del Credere* commission if responsibility for due payment by the purchaser has been accepted.

The net amount remitted to the consignor should be debited to his account, and credited to Cash or Bills Payable Account.

An Account Sales may then be made out and sent to the consignor giving full details as previously explained.

Example.—Received 69 cases of goods on consignment from T. J. Murray, valued on *pro forma* invoice at £460. Paid dock dues and other landing charges, £5, 10s.; Warehousing, £7, 10s.; Fire Insurance, £3. Accepted and paid bill for £250 drawn by T. J. Murray as an advance.

Sold 35 cases to A. Byer & Co. for £350, and 25 cases for cash, £325. Sent Account Sales to T. J. Murray with sight draft for balance due, £383, 13s. 9d. The Stock unsold was valued at £58. Make the necessary entries in the consignee's books. Commission on Sales, 2½%; Del Credere Commission, 1¼% on Total Sales (often this is payable only on credit sales).

"Book-keeping and Accountancy"

(a) Usual Method.

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	Dr. £	s.	d.	Cr. £	s.	d.
A. Byer & Co. (Purchaser)	350	0	0			
To T. J. Murray (Consignor) . . .				350	0	0
Sale of 35 cases of Consignment Inwards.						
T. J. Murray (Consignor)	25	6	3			
To Commission 2½% on £675 . .				16	17	6
„ *Del Credere do 1¼% on £675* .				8	8	9

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To T. J. Murray (received for cash sale)	325	0	0	By T. J. Murray Expenses:			
				Landing Charges	5	10	0
				Warehousing	7	10	0
				Insurance .	3	0	0
				By T. J. Murray (payment in advance)	250	0	0
				By T. J. Murray (for final draft)	383	13	9

LEDGER

T. J. MURRAY, London

Dr. *Cr.*

	£	s.	d.		£	s.	d.
To Landing Chgs.	5	10	0	By Cash Sale	325	0	0
„ *Warehousing* .	7	10	0	„ A. Byer & Co.	350	0	0
„ Insurance	3	0	0				
„ Advance .	250	0	0				
„ Commission 2½ . .	16	17	6				
To Del Credere 1¼%	8	8	9				
To Cash (to settle)	383	13	9				
	£675	0	0				

(*b*) **An Alternative Method,** when value of consignment is debited to a Consignment Inwards Account immediately on receipt (same example).

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		Dr. £	s.	d.	Cr. £	s.	d.
Consignment Inwards a/c . . .		460	0	0			
To T. J. Murray, London . .					460	0	0
Goods received on consignment.							
A. Byer & Co.		350	0	0			
To Consignment Inwards . .					350	0	0
Sale of 35 Cases.							
Consignment Inwards a/c . . .		25	6	3			
To Commission a/c.							
Selling @ $2\frac{1}{2}\%$ . . .					16	17	6
Del Credere @ $1\frac{1}{4}$ . .					8	8	9
Commission both on total Sales.							

CASH BOOK

(NOTE.—*Amounts the same as in first method, the entries only differing in description.*)

Dr.			£	s.	d.		Cr.		£	s.	d.
	To Consignment Inwards a/c .		325	0	0		By Consignment Inwards a/c—				
							Landing Chgs. .		5	10	0
							Warehousing .		7	10	0
							Insurance . .		3	0	0
							By T. J. Murray .		250	0	0
							" " .		383	13	9

LEDGER

CONSIGNMENT INWARDS ACCOUNT

Dr.			£	s.	d.		Cr.		£	s.	d.
	To T. J. Murray .		460	0	0		By Cash . .		325	0	0
	" Expenses (cash)—						" A. Byer & Co. .		350	0	0
	Landing . .		5	10	0		" Stock Unsold .	c/d	58	0	0
	Warehouse .		7	10	0						
	Insurance .		3	0	0						
	" Commission .		16	17	6						
	" Do. Del Credere . .		8	8	9						
	" Balance transferred to T. J. Murray's a/c .		231	13	9						
			£733	0	0				£733	0	0
	To Balance . .	b/d	£58	0	0						

T. J. MURRAY, London

Dr.			£	s.	d.			£	s.	d.
To Cash . .			250	0	0	By Consignments Inwards . .		460	0	0
" " . .			383	13	9	" Transfer from Consignment Inwards a/c .		231	13	9
" Balance of Stock . .	c/d		58	0	0					
			£691	13	9			£691	13	9
						By Balance . .	b/d	£58	0	0

131.—Goods on Sale or Return. In the case of goods on sale or return the goods are returnable at the option of the receiver of them, provided they are returned within a specified or reasonable time.

The following is a suitable ruling for a book to record such transactions:—

GOODS ON SALE OR RETURN BOOK

1	2	3	4			5	6			7			8
Date.	Name and Address.	Goods sent.	Value			Date	Goods returned			Goods sold			Sales Ledger Folio.
			£	s	d		£	s	d	£	s	d	

Procedure.—(1) When goods are sent on approval details are entered in columns 1 to 4, and no other entry is made in the books until the goods are returned or notified as kept.

(2) Goods returned are entered in column 6. Both column 4 and column 6 are memoranda columns only, and do not affect the double entry.

(3) Goods sold are extended into column 7, and from there posted to customer's account in the Sales Ledger. The total of column 7 must be posted (say monthly) to the credit of Sales Account.

(4) Goods outstanding at a given date are shown by the difference between the totals of column 6 and 7

(together) and column 4. This value must be reduced to cost when brought into the stock figure in the final Accounts and Balance Sheet.

132.—**Joint Ventures.** When two or more persons contribute capital to and agree to share profits and losses in a particular speculation or venture, without the use of a partnership name, such a partnership is called a Joint Venture. By such an arrangement special facilities or advantages possessed differently by the parties are in a sense pooled for their common benefit, whilst responsibility is not incurred beyond the scope of the venture.

Such Joint Ventures may be in connection with a joint consignment of goods or some other form of speculative enterprise.

133.—**Joint Venture Accounts :—**

(1) Each party may open a special account for the joint venture, recording only those transactions in the venture with which he himself is concerned. A general account or statement is prepared later in which all the transactions of each party engaged in the venture are incorporated, and from which the profit (or loss) is ascertained. Each party then debits the Joint Account in his own books with the profit due to him, and credits Profit and Loss Account.

If there remains a debit balance on his Joint Account this amount is due to him from the other parties ; or if a credit balance he will have to pay it to them. The payment of this balance by one party to the other will finally close the Joint Venture Account, and the Joint Account in each party's books.

(2) Usually one of the parties undertakes to manage the Joint Venture, and he does the buying, selling, etc., and keeps the general Joint Venture Account.

For this service he generally takes a commission in addition to his share of the profits.

The Joint Venture Account is debited with the cost of the goods, and each party contributes his agreed share of this cost, which amounts are credited to their personal accounts in the managing party's books. The Joint Account is also debited with all expenses, credited with sales, and the balance is the profit (or loss) divisible.

The Joint Accounts are sometimes kept on an Account Current basis, bringing interest into account. (See Vol. II, Chap. I.)

EXAMPLE.—Wells and Hobbs entered a joint venture. Wells supplied goods valued at £800, and received others from Hobbs valued at £1400, in connection with which Hobbs paid £10, 10s. expenses. Hobbs drew on Wells for £450. Wells paid freight and other charges £18; he sold all the goods through a broker for £2500, and had to pay the latter 1 per cent. commission on the gross proceeds. Prepare a Joint Venture Account, and the joint account kept by Wells and Hobbs in their own books. Wells sent a cheque to Hobbs to settle the account, the parties sharing equally in profits or losses.

JOINT VENTURE ACCOUNT

(Memorandum Account kept by Wells)

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Goods (Wells) .	800	0	0	By Sales . £2,500			
" " (Hobbs) .	1,400	0	0	*Less* Brokerage 25	2,475	0	0
" Freight (Wells) .	18	0	0				
" Expenses (Hobbs)	10	10	0				
" Profit (joint) c/d	246	10	0				
	£2,475	0	0		£2,475	0	0
To Wells . .	£123	5	0	By Profit b/d .	£246	10	0
" Hobbs . .	123	5	0				
	£246	10	0		£246	10	0

JOINT ACCOUNT WITH HOBBS

(In Wells' Books)

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Goods .	800	0	0	By Cheque from Broker .	2,475	0	0
" Freight and Charges . .	18	0	0				
" Bill (*drawn by Hobbs*) .	450	0	0				
" Profit (½ Share)	123	5	0				
	£1,391	5	0				
To Bank (Cheque to Hobbs to settle)	1,083	15	0				
	£2,475	0	0		£2,475	0	0

JOINT ACCOUNT WITH WELLS

Dr. (*In Hobbs' Books*) *Cr.*

	£	s.	d.		£	s.	d.
To Goods . .	1,400	0	0	By Sight Bill (*on Wells*) . . .	450	0	0
„ Expenses . .	10	10	0	By Bank (*Cheque from Wells*) . .	1,083	15	0
„ Profit (½ share) .	123	5	0				
	£1,533	15	0		£1,533	15	0

EXAMPLE II.—Bell, Horne and Jones entered a Joint Venture, Bell managing affairs for a commission of 5 per cent. on sales, and all sharing equally in profit.

Bell bought goods value £750, and supplied £450 from his own stock.

He paid freight and other charges £67, 10s.

He received cheques of £400 each from Horne and Jones for their share of the cost of goods.

Goods on joint account sold for £1650 prompt cash.

Sent cheques to Horne and Jones for their share in the profits.

Write up all the entries in Bell's books.

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		£	s.	d.	£	s.	d.
	Joint Venture a/c	450	0	0			
	To Goods a/c . . .				450	0	0
	For goods from stock for joint account.						
	Joint Venture a/c	82	10	0			
	To Commission . . .				82	10	0
	For 5 per cent. on £1650 sale of joint stock for joint account with Horne and Jones.						

CASH BOOK

Dr. *Cr.*

		£	s.	d.			£	s.	d.
	To Horne, share of cost	400	0	0		By Joint a/c expenses .	67	10	0
	To Jones, share of cost	400	0	0		By Goods for Joint a/c .	750	0	0
	To Cash (*for sale of Stock*)	1,650	0	0		By Horne .	500	0	0
						„ Jones .	500	0	0

LEDGER

JOINT VENTURE ACCOUNT

(with Horne and Jones)

Dr.	£	s.	d.	Cr.	£	s.	d.
To Cash	750	0	0	By Cash for Sale of joint stock	1,650	0	0
" Goods	450	0	0				
" Cash (Freight and Charges)	67	10	0				
To Commission 5 / on Sales	82	10	0				
To Balance, being profit £300—							
Horne ⅓	100	0	0				
Jones ⅓	100	0	0				
Profit and Loss a/c ⅓	100	0	0				
	£1,650	0	0		£1,650	0	0

H. HORNE

Dr.	£	s.	d.	Cr.	£	s.	d.
To Cash	500	0	0	By Cash	400	0	0
				" Joint a/c (⅓ profit)	100	0	0
	£500	0	0		£500	0	0

J. JONES

Dr.	£	s.	d.	Cr.	£	s.	d.
To Cash	500	0	0	By Cash	400	0	0
				" Joint a/c (⅓ profit)	100	0	0
	£500	0	0		£500	0	0

GOODS ON JOINT ACCOUNT

Dr. | *Cr.*

			£	s.	d.				£	s.	d.
	To Transfer to Trading a/c . .		£450	0	0		By Joint a/c with Horne and Jones .		£450	0	0

TRADING ACCOUNT

Dr. | *Cr.*

									£	s.	d.
							By Goods on Joint a/c .		£450	0	0

PROFIT AND LOSS ACCOUNT

Dr. | *Cr.*

									£	s.	d.
							By Joint a/c with Horne and Jones .		100	0	0
							By Commission . .		82	10	0

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